

TOWN OF BROOKLINE, MASSACHUSETTS

***REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS***

FISCAL YEAR ENDED JUNE 30, 2006

TOWN OF BROOKLINE, MASSACHUSETTS
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JUNE 30, 2006

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TOWN of BROOKLINE

Massachusetts

BOARD OF SELECTMEN

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Letter of Transmittal

November 17, 2006

To the Honorable Members of the Board of Selectmen and Citizens of the Town of Brookline:

State and Federal regulations require the Town of Brookline to publish at the end of each fiscal year a complete set of financial statements in conformity with accounting principals generally accepted in the United States of America (GAAP) that are audited in accordance with generally accepted auditing standards (GAAS) by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Annual Report on the Examination of the Basic Financial Statements of the Town of Brookline, Massachusetts, for the fiscal year ending June 30, 2006 for your review.

This report consists of management's representations concerning the finances of the Town of Brookline. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town of Brookline has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Brookline's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Brookline's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town of Brookline's financial statements have been audited by Powers & Sullivan, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Brookline for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principals used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town of Brookline's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town of Brookline was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Town of Brookline's separately issued Reports on Federal Award Programs, also known as the Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it. The Town of Brookline's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The Town of Brookline was founded in 1630 and incorporated in 1705. It is located in Norfolk County and borders on Boston to the east, north and south, and Newton to the west. It is approximately 6.8 square miles in area and, according to the 2000 federal census, has a population of 57,107 persons.

Municipal Services

The Town provides general governmental services within its boundaries including:

- public education in grades pre-kindergarten through 12 to more than 6,000 students
- police and fire protection including building inspection and animal control services
- highway and roadway maintenance including snow and ice control and traffic control
- street and sidewalk maintenance
- water and sewer services
- refuse collection services
- parks and recreational services including a golf course and a swimming pool
- library services
- senior citizen services and programs including the senior center facility
- public health services including food outlet inspections, immunizations, and mental health
- veterans services

Governing Bodies and Officers

The Town operates under a Board of Selectmen/Town Meeting form of government. Local legislative decisions are made by a representative Town Meeting consisting of 248 members and implemented by a five-member Board of Selectmen. Day-to-day administrative authority is vested in the Town Administrator who is appointed by the Board of Selectmen. The Town Administrator is the chief operating officer and is responsible for the supervision and the administration of all municipal departments except for the School Department.

A nine person elected school committee is responsible for the administration of all local school affairs. There is also a nine member elected Board of Library Trustees. A three person Board of Assessors, who are appointed by the Board of selectmen, are responsible for the assessment of local property taxes. A five member Retirement Board services employees in all Town Departments, except professional employees of the School Department, for retirement matters, and consists of an ex-officio member, 2 members elected by active and retired members of the Retirement System, 1 member appointed by the Selectmen and a fifth member chosen by the other 4 Board members.

Audit Committee

The Audit Committee consists of six members with appointment not restricted to the ranks of appointing bodies. The Board of Selectmen, the Advisory Committee and the School Committee each appoint one member and the Town Moderator appoints three members. Current voting members include Nancy Daly (selectmen appointee and chair), Branch Harding (Advisory Committee), Alan Morse (School Committee), James Littleton and Gregory Grobstein (Moderator's Appointees). In addition to the six voting members, the Director of Finance (Stephen Cirillo), the Comptroller (Judith Haupin), the Superintendent of Schools or his/her designee (Peter Rowe), and the Town Administrator or his/her designee (Sean Cronin) serve as nonvoting members of the Committee.

Financial and Management Systems

The Town annually prepares and updates a five-year financial forecast, a six-year capital improvement program, and an annual operating budget. These documents are prepared by the Town Administrator's office in conjunction with the Finance Department, reviewed by the Board of Selectmen and Advisory (Finance) Committee, and submitted to Town Meeting for adoption. The Board of Selectmen annually establishes financial policies that guide the preparation of the capital and operating budget plan.

The five-year forecast, submitted in the fall of each year, is a comprehensive review of economic trends on a local, regional and national basis. It analyzes major municipal fund expenditure projections based upon service program assumptions and develops revenue estimates based on economic conditions and prior trends. Based upon these projections and analyses, the forecast establishes a focal point each fall for the Board of Selectmen to establish a series of revenue and expenditure policies that guide the formation of the capital and operating budgets.

The six-year capital improvement program (CIP), preliminarily submitted in the fall of each year as well, comprehensively identifies municipal infrastructure and improvement needs by detailing each project, including project description, cost, potential source(s) of funding, priority need, impact upon the operating budget, and ongoing capital maintenance costs. After public hearings by various boards and commissions, the Board of Selectmen adopts an annual funding strategy, which is predicated upon the Town's formal policy of dedicating 5.5% of the prior year's net revenue, plus free cash, to the CIP. The annual update allows decision makers and voters the opportunity to regularly analyze and decide upon priority project funding.

The annual operating budget submitted in February of each year, follows a program management format that details source and use recommendations for all funds; details departmental missions, goals, objectives and annual work plans; and details performance measurement and financial management criteria for each budget cycle. The financial plan has recently been recognized by the GFOA for excellence in budget presentation. The budget maintains consistency with the Selectmen's financial management standards and policies. The budget funding sources include the general fund, comprised of revenues from the property tax, auto and hotel tax, user fee receipts, grants in aid, investment income and miscellaneous program income; the enterprise funds for the water and sewer operations and the golf course; and the Recreation Revolving Fund. These latter funds are intended to be self-supporting through user-based charges.

Principal Executive Officers

<u>Office</u>	<u>Name</u>	<u>Term</u>	<u>Term Exp.</u>
Town Administrator	Richard J. Kelliher	Appointed - 3 years	2009
Deputy Town Administrator	Sean Cronin	Appointed - 1 year	2007
Assistant Town Administrator	Melissa Goff	Appointed - 1 year	2007
Finance Director and Treasurer	Stephen Cirillo	Appointed - 1 year	2007
Town Comptroller	Judith Ann Haupin	Appointed - 1 year	2007
Town Clerk	Patrick J. Ward	Elected - 3 years	2009
Town Counsel	Jennifer Dopazo	Appointed - 3 years	2008

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Town of Brookline operates.

Tax Base/Local economy. Brookline is bordered by the City of Boston. It has both urban and suburban features and is characterized by comparatively high property values. Almost 72% of the general fund revenues are financed by the annual taxes on property. The remaining revenues come from locally derived receipts (approximately 11%), State aid (approximately 10%), transfers from other non-general funds (approximately 3%) and other available funds (approximately 4%).

Residential property comprises 84.6% of the full and fair value of the property in Brookline and they are responsible for 84.3% of the taxes. The Town has been adopting the tax classification authorization that permits it to set two separate tax rates. The current tax rates are:

Residential	\$ 9.55 per thousand
Commercial	\$ 15.46 per thousand

A combination of significant new development and a strong real estate market has contributed to a steadily growing tax base. The tax base (current market valuation of \$14.1 billion) has increased a significant 10.7% since FY2000 reflecting strong development and real estate appreciation. The town's tax base is now among the five largest in Massachusetts. Building permit activity continues at a strong pace, having averaged more than \$ 2.4 million annually over the past five years. Per capita market value of \$256,140 is also among the highest in the state as are the per capita personal income level, which is at \$45,435 according to the 2000 census.

Long-term financial planning. Through the CIP process, the Town of Brookline has identified approximately \$107.2 million in capital improvements needed over the next 6 years. Large components of this total include the following:

- ✚ upgrade and maintenance of our waste water system (\$6.3 million), which will be borne by the water and sewer rates rather than the tax levy.
- ✚ rehabilitation of the Town's streets and sidewalks (\$11.4 million). State funding via the Chapter 90 program is expected to fund \$3.4 million of this work.
- ✚ anticipated school projects (\$40.9 million). It is important to note that the two major renovations projects planned for (Runkle School and Devotion School) assume the new School Building Authority (SBA) covers 50% of the costs. If that does not occur, then either the projects need to be reduced in scope or debt exclusion votes are required. The Town is in the process of submitting a statement of interest to apply for SBA assistance for these projects. However, with a growing need for school construction in economically challenged communities, it is not certain that the Town of Brookline will receive SBA assistance. These projects follow the other major school projects that have recently been undertaken, including the High School renovation (\$44.8 million), the Baker School renovation (\$10.5 million), the construction of the New Lincoln School (\$13 million), and the Lawrence School renovation (\$16.1 million).
- ✚ the Town Hall renovation, currently estimated to cost \$16.1 million.
- ✚ the purchase of the former state-owned Fisher Hill reservoir for transformation into an active / passive open space (\$4.6 million, of which just \$1.35 million is supported by the tax base).
- ✚ The Gateway East project in the Brookline Village / Route 9 area (\$1.75 million). The Town plans on utilizing the Section 108 Loan Program afforded by the Federal government under the CDBG program to finance \$1.5 million. The remaining piece is to be funded by outside sources related to the 2 Brookline Place redevelopment.

On the Town's operating side, the Town continues to grapple with the lack of restoration of the local aid cuts made in FY03 and FY04. During that two year period, local aid was cut by close to \$3 million. The Town continues to be below the FY03 levels, even prior to accounting for inflation. The current fiscal climate at the state level does not point to significant increases in local aid, so there is likely to be continued negative impacts on the Town's ability to deliver services. This has put the Town in the position of having to replace the revenue lost from the state and rely increasingly on local revenues to cover the increasing cost of providing services. The Town will have to continue to review all current and potential sources of revenue and seek ways to consolidate or find optional ways to continue to deliver a high level of service at lower costs.

A number of cost centers have placed serious pressures on the operating budget, including health insurance, pension, and utilities. Double-digit growth in health insurance premiums have been the norm over the past few years, consuming approximately one-third of all new property taxes since FY03. What was a \$12 million budget in FY03 is now \$19 million. The Town's contribution to the Retirement System has averaged approximately \$360,000 over the past few years. That figure will appear small when compared to the \$1 million increase required in FY08. Utility expenses have skyrocketed since FY03: the price of electricity has increased 143%; the price of natural gas has increased 71%; the price of heating oil has nearly tripled; and the price of vehicle fuel is two and half times what it was. In FY07, it will be \$5.3 million. As a result, the Town's total utility budget has nearly doubled since FY03 to \$5.3 million.

The Town continues to manage its financial affairs in prudent manner. It has maintained its Aaa bond rating even during the recent era characterized by limited revenue growth and major increases in fixed-costs. It has done so by incorporating long range planning tools such as a five-year forecast and a six-year Capital Improvement Program; establishing rainy day accounts and budgeting stabilization reserves; prioritizing spending plans and identifying discretionary spending; incorporating pay-as-you-go financing strategies; developing long-term planning for all liabilities including pension and insurance reserves; investing in technology to make our operations more efficient; and growing the tax base in a manner that balances neighborhood concerns with the need for additional revenues.

Brookline has also enhanced its revenue flexibility by establishing enterprise funds for certain operations. This has allowed the Town to shift 100% percent of the operating cost and capital improvements to the users of certain services so that little or no tax support goes towards providing these services. This includes the water, sewer and municipal golf course operations. By doing so, the Town is able to provide the maximum tax dollars available to all other services.

Cash management policies and practices. The Town of Brookline issues property tax bills four times a year and derives approximately 72% of its annual revenue from this source. These quarterly billings result in a reasonably steady cash flow throughout the year. Every effort is made to put any reserve funds to work. This has become more challenging of late due to the historically low rate of return for most traditional investment vehicles. For example, Certificates of Deposit, once an option for surplus operational funds, no longer make sense when fully liquid money market funds have a higher return. Nevertheless, the Town's investment policy remains conservative with particular attention to the constraints of safety and liquidity while attempting to secure the highest yield available with those constraints.

On a daily basis, the treasurer automatically transfers excess funds out of all depository accounts (9) into a collateralized repurchase account with the same depository bank. Frequently (depending on level of receipts) this money is transferred into our account at the Massachusetts Municipal Depository Trust (MMDT) that has offered a higher rate of return over the past year. This is the State Treasurer's pool of invested funds managed currently by Fidelity Investments. The Trust's investment policy requires that these funds be invested in short term fixed income securities (both government and corporate) with maturities not to exceed 90 days. Our funds in this account are entirely liquid.

Finally, a significant portion of the Town's non-expendable trust funds are currently managed by a professional and nationally recognized investment management firm. Each of these funds has a distinct purpose and, therefore, the mix of holdings in cash, fixed income securities, and equities will vary by fund. The amount of annual income desired and the timing of disbursements generally govern the mix.

Risk Management. The Town of Brookline manages its risk through a combination of self-insured programs and premium based coverage with commercial insurance carriers. Workers compensation, unemployment and municipal building activities are self-insured while exposures to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters are covered through policies purchased from commercial carriers. Various control techniques, including employee accident prevention training, have been performed to minimize accident-related losses. Worker's compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. Third-party coverage is maintained for individual workers' compensation claims in excess of \$750,000. In addition, the Town administers an insurance reserve fund to help offset the annual cost of its risk management program. Additional information on the Town of Brookline's risk management activity can be found in the notes to the financial statements.

INITIATIVES

The Town engaged in several initiatives this year that have some financial impact upon the community. They are:

Retiree Health Actuarial Analysis -The Town of Brookline provides post employment health care benefits for certain retirees and their dependants. There were approximately 1,327 retired employees and/or spouses receiving these benefits. The town is supporting this obligation on a pay-as –you-go basis.

Two recent GASB Statements, #43 and #45, establish new accounting rules for communities, relating to the unfunded liability of post employment benefits. The Town has an immediate need to comply with GASB #45, by no later than June 30, 2008. This accounting statement requires communities to complete an actuarial analysis to determine the unfunded liability. The failure to comply with the schedule for completion would result in a qualified opinion on the annual audit for FY2008. The Town of Brookline has now accomplished this requirement.

GASB # 43 has no immediate requirement for implementation. This statement relates to how the unfunded liability is calculated and is driven by how the funds are controlled. A community that grants control of post employment benefit funds to an autonomous board, thereby protecting the funds from liability claims, is allowed to calculate the unfunded liability based upon an estimated rate of return on investment associated with stock market investments. In this case the estimated rate of return would be 8.25%. A community that has yet to grant control to an autonomous board must calculate the rate of return based upon general fund bank interest. The current bank interest yield is approximately 5.5%. If the Town of Brookline were to adopt GASB # 43, the unfunded liability would be approximately \$207 million. As the Town has yet to adopt this statement, the unfunded liability is estimated to be \$325 million.

There is currently no requirement to begin funding this liability. There is no indication that communities will be required to fund this liability in the foreseeable future. Nevertheless, in 1999, the Town created a Retiree Health Trust Fund, controlled by the Town, and has accumulated more than \$4 million in assets for this purpose. The Town is one of a very few communities which has begun to authorize appropriations for post employment benefits. Although there is currently a moratorium on setting funds aside for this purpose, the Town will continue to explore options for funding this obligation.

Debt Arbitrage Analysis - In 1986, the Internal Revenue Code was amended to require an arbitrage rebate for communities that made profits on investment of bond proceeds. A profit is defined as borrowing funds at tax exempt rates and then investing unexpended proceeds at higher taxable rates. There are specific measurements of expenditures: expenditure of 10% within six months of the borrowing; expenditure of 45% within one year; expenditure of 75% within eighteen months; and expenditure of 100% within two years. Failure to meet any of these timelines would trigger a determination of arbitrage. The profit would then be determined by identifying the difference between the rate of investment and the rate of borrowing. For many years the Internal Revenue Service did not pursue these provisions of the Code. In recent years, however, the federal government has begun to measure local government borrowing against the Code. Nationally, communities that benefited from investments from bond proceeds have been required to rebate profit. Significant penalties were imposed on communities that failed to voluntarily comply with the code.

The Town of Brookline, at the suggestion of its Financial Advisor began to review its own compliance with the IRS Code in the spring of 2006. Each of the capital projects supported by debt proceeds, from July 1997 through June 2006, is being analyzed. This requires a great deal of data retrieval including the date and rate of borrowing, the monthly expenditures by project from the beginning through the completion of each project, and the rate of return on investment, by month, from the beginning through the end of each project. The analysis was made more complicated by the fact that the Town has changed its financial software on three different occasions during the time frame of the analysis. The analysis is not yet completed. We have, however, completed the review of the largest capital project, the High School, and found that there was some profit made by the Town on the investment of tax exempt bond proceeds. The Town has voluntarily submitted this report to the IRS, identifying excess profit of approximately \$87 thousand, plus interest, and has made the rebate to the federal government. We will have the analysis of all other capital projects by the end of this fiscal year.

School Building Assistance – The School Building Assistance Program provides financial aid to communities to construct or reconstruct school facilities. Originally, once a capital project was completed, the State would begin to provide reimbursement of cost spread over the term of the local borrowing for the project. The State was responsible for conducting a final audit of each project, within in a very few years of the project completion, to determine final cost and reimbursement. The State fell behind in its goal to complete these audits on a timely basis. In 2004, the program was restructured and placed under the control of an independent authority chaired by the State Treasurer. The Authority recently promulgated a set of regulations that detail how the program will work going forward. The most significant change from a financial perspective is the movement away from the old system of repayment over the term of the local borrowing to a progress payment system. Communities will no longer have to borrow the State's share of the project.

One early initiative of the new MSBA was to eliminate the huge backlog of audits across the Commonwealth caused by the Department of Education's (DOE) inability to conduct audits on a timely basis. For Brookline, this means that the remaining unaudited school projects partially funded with SBA funds will be audited in CY06 – CY07. The Town of Brookline has five SBA supported school projects -- the Lincoln School (1992), the Heath School (1993), the High School (1996), the Baker School (2000), and the Lawrence School (2002) – three of which have yet to be audited by the State (Lincoln, Baker, and the High School). The Lincoln School and High School projects have debt exclusion overrides supporting the Town share of approximately 39%. All but the Lawrence School projects were subject to the previous aid reimbursement schedule coinciding with the term of the borrowing. The Lawrence School received a lump sum settlement for reimbursement of the State share as part of the revamped SBA program. The audit for the Lawrence School was completed first because the Town had short term borrowings (BAN's) outstanding on the project. The determination and lump sum payment of the final reimbursable amount would pay down the existing BAN and establish how much the Town would require in a long term borrowing. Upon completion of the final audit, the State determined that approximately \$766,000 of items that the Town believed to qualify for reimbursement, associated primarily with reimbursement of transportation costs, did not fall within the State guidelines for aid. This amount was rolled over in a BAN through the end of FY2007. At that time it will be replaced by a long term borrowing.

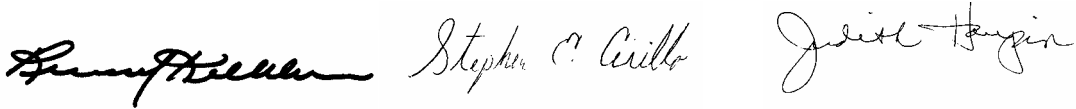
The remaining three audits have not been completed. With a requirement to eliminate the backlog of audits, the MSBA is working with the Town to get these audits underway. The Lincoln School is the next project to undergo a final audit. This effort will be difficult as the State did not complete the audit on a timely basis. As more than ten years have passed since the completion of the project, the Town has changed financial software three times, making electronic retrieval of data unlikely. Further, the paper documents associated with the project have deteriorated due to a sewer line break that destroyed much of the data. The High School is complicated due to the share size of the project and the fact that there was some litigation involved. The Baker School project is not expected to be difficult to complete the final audit, however, the fact that it was litigated may complicate it.

Miscellaneous Committed Bills – The June 30, 2005 year end audit's Management Letter, at the request of the Audit Committee and the Director of Finance, reviewed the process of departmental billing, collection and reconciliation of accounts receivable of miscellaneous committed bills. Departmental managers met with senior staff during the summer of 2006 to formulate a strategy for improvement of the process. As a result of this review, the Town has purchased a new financial application module from MUNUS, its current financial software vendor, that we believe will improve this system. Key staff from departments will be trained in the use of the software through the end of the calendar year. It is anticipated that the new system will be fully operational at the beginning of 2007.

Acknowledgements.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Town Administrator's Office and the Finance Department. We would like to express our appreciation to all the members of the department who assisted and contributed to the preparation of this report. Credit should also be given to the Board of Selectmen for their unfailing support for maintaining the highest standards of professionalism in the management of the Town of Brookline's finances.

Respectfully submitted,

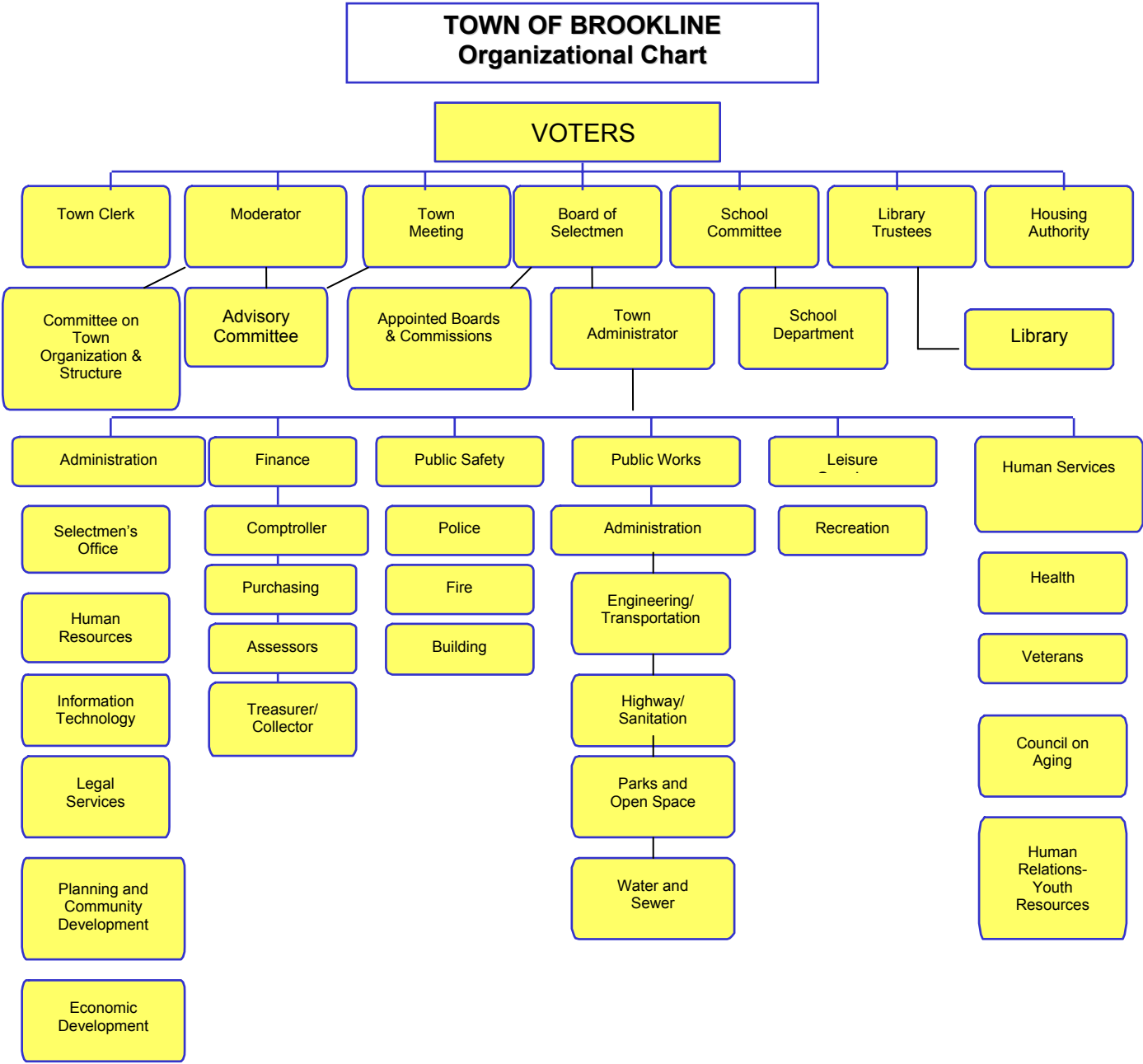


Richard J. Kelliher
Town Administrator

Stephen Cirillo
Finance Director

Judith A. Haupin
Town Comptroller

Organizational Charts



BOARDS/COMMISSIONS APPOINTED BY THE BOARD OF SELECTMEN

Planning/ Development	Administration and Finance	Public Works	Cultural/ Leisure Services	Human Services
Board of Appeals	Board of Assessors	Conservation Commission	Broadband Monitoring Committee	Advisory Council on Public Health
Board of Examiners	Human Resources Board	Solid Waste Advisory Committee	Brookline Access Television	Commission for the Disabled
Building Commission	Registrars of Voters	Transportation Board	Celebrations Committee	Commission for Women
Economic Development Advisory Board	Retirement Board	Tree Planting Committee	Brookline Commission for the Arts	Council on Aging
Housing Advisory Board	Information Technology Advisory Committee	Trustees of Walnut Hills Cemetery	Park and Recreation Commission	Holocaust Memorial Committee
Planning Board				Human Relations Youth Resources
Preservation Commission				



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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Brookline, Massachusetts

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Brookline, Massachusetts, as of and for the fiscal year ended June 30, 2006 (except for the Brookline Contributory Retirement System which is as of and for the year ended December 31, 2005), which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town of Brookline, Massachusetts' management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Brookline, Massachusetts, as of June 30, 2006 (except for the Brookline Contributory Retirement System which is as of December 31, 2005), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2006, on our consideration of the Town of Brookline, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and the schedule of revenues, expenditures and changes in fund balance - general fund – budget and actual, located after the notes to the basic financial statements, are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in cursive script, reading "Bowers + Sullivan".

October 19, 2006

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Brookline, Massachusetts, we offer readers of the Town of Brookline financial statements this narrative overview and analysis of the financial activities of the Town of Brookline for the fiscal year ended June 30, 2006. The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements.

The Governmental Accounting Standards Board (GASB) is the authoritative standards setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principals (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB establishing consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislator and others) can assess the financial condition of one government compared to others.

Government must adhere to GASB pronouncements in order to issue their financial statements in conformity with GAAP. The users of financial statements also rely on the independent auditor's opinion. If the Town of Brookline financial statements have significant departures from GAAP the independent auditor's may issue a qualified opinion or a disclaimer (where no opinion is given). These types of opinions may have an adverse effect on the Town's bond rating and our ability to borrow money at favorable interest rates. If the Town of Brookline did not comply with GASB statement number 34 we would most likely receive a disclaimer of opinion. The Town of Brookline has received an unqualified opinion on its financial statements since the fiscal year ended June 30, 1995.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Brookline's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, human services, community and economic development, leisure services, pension benefits, property and liability insurance, fringe benefits, claims and judgments, interest and state and county charges. The business-type activities include water, sewer and golf activities.

The government-wide financial statements include not only the Town of Brookline itself (known as the *primary government*), but also a legally separate public employee retirement system for which the Town of Brookline is financially accountable. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town of Brookline adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Town maintains two types of proprietary funds.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water, sewer and golf activities.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. The Town uses internal service funds to account for health insurance activities, workers' compensation benefits and municipal insurance. Because these services predominately benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for propriety funds.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the progress in funding its obligation to provide pension benefits to its employees.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown below, governmental assets exceeded liabilities by \$191,632,927 at the close of FY2006.

Net assets of \$126,624,544 reflect the Town's investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

\$24,975,749 represents resources that are subject to external restrictions on expenditures. The remaining balance of *unrestricted net assets* of \$40,032,634 may be used to meet the government's ongoing obligations to citizens and creditors.

At this point it is important to note that in accordance with the requirements of Massachusetts finance laws and regulations, all of the unrestricted net assets are required to be reserved for designated purposes except for approximately \$5 million, which is the amount classified as "available funds" (also known as "free cash") by the Massachusetts Department of Revenue's Division of Local Services. The remaining unrestricted net assets are either already committed for expenditure or required to be retained for other purposes.

Town of Brookline – Governmental Activities Net Assets

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets. The Town's assets exceeded liabilities by \$191,632,927 at the close of fiscal year 2006.

		FY 2006	FY 2005	FY 2004
		Governmental	Governmental	Governmental
		Activities	Activities	Activities
Assets:				
Current:				
Cash and short-term investments.....	\$	73,009,756	\$ 77,872,389	\$ 75,506,686
Investments.....		8,221,769	7,530,254	6,975,369
Receivables, net of allowance for uncollectibles....		16,919,627	22,080,590	13,230,111
Other current assets.....		2,538,705	2,265,646	2,002,422
Noncurrent assets (excluding capital).....		32,608,600	37,121,600	43,729,000
Capital assets.....		178,033,087	175,608,912	173,442,564
Total assets.....		311,331,544	322,479,391	314,886,152
Liabilities:				
Current (excluding debt):				
Warrants payable.....		2,215,737	3,696,679	5,664,446
Tax refunds payable.....		2,535,000	2,272,000	2,412,000
Compensated absences.....		5,570,154	5,436,290	4,681,445
Other current liabilities.....		5,005,039	6,951,942	8,707,087
Noncurrent (excluding debt):				
Landfill closure.....		12,051,000	9,412,000	9,412,000
Compensated absences.....		3,997,555	3,521,010	3,331,306
Other noncurrent liabilities.....		878,986	1,087,368	2,013,008
Current debt.....		16,688,577	18,598,456	17,999,130
Noncurrent debt.....		70,756,569	78,410,145	75,018,602
Total liabilities.....		119,698,617	129,385,890	129,239,024
Net Assets:				
Capital assets net of related debt.....		126,624,544	127,123,745	125,270,581
Restricted.....		24,975,749	22,102,820	22,441,837
Unrestricted.....		40,032,634	43,866,936	37,934,710
Total net assets.....	\$	191,632,927	\$ 193,093,501	\$ 185,647,128

Net assets from the Town's governmental activities decreased by \$1,460,574 during fiscal year 2006. Key elements of the change are as follows:

	<i>FY 2006 Governmental Activities</i>	<i>FY 2005 Governmental Activities</i>	<i>FY 2004 Governmental Activities</i>
Program revenues:			
Charges for services.....	\$ 20,506,916	\$ 19,700,500	\$ 22,275,994
Operating grants and contributions.....	30,827,808	30,557,686	26,501,444
Capital grants and contributions.....	-	5,259,400	8,017,139
General Revenues:			
Real estate and personal property taxes.....	123,144,556	118,294,166	114,633,777
Motor vehicle and other excise taxes.....	5,619,527	5,367,069	5,083,769
Nonrestricted grants and contributions.....	8,005,995	7,587,631	7,541,759
Unrestricted investment income.....	3,484,024	2,026,741	1,341,412
Gain on sale of capital assets.....	1,867	-	-
Other revenues.....	2,587,399	2,305,191	2,550,809
Total revenues.....	194,178,092	191,098,384	187,946,103
Expenses:			
General Government.....	15,082,397	16,110,200	16,454,336
Public Safety.....	42,887,709	42,107,638	40,694,161
Education.....	99,264,800	88,302,240	83,493,702
Public Works.....	22,844,858	20,931,387	23,012,925
Community and Economic Development.....	2,432,429	3,410,631	1,420,252
Human Services.....	3,524,414	4,293,942	3,845,292
Leisure Services.....	6,931,335	6,775,291	7,739,314
Interest.....	4,186,691	3,911,178	3,635,472
Loss on disposal of capital assets.....	823,259	-	-
Total expenses.....	197,977,892	185,842,507	180,295,454
Transfers In(Out).....	2,339,226	2,190,496	2,043,885
Change in net assets.....	\$ (1,460,574)	\$ 7,446,373	\$ 9,694,534

A large number of factors contributed to the change in net assets within the governmental activities category.

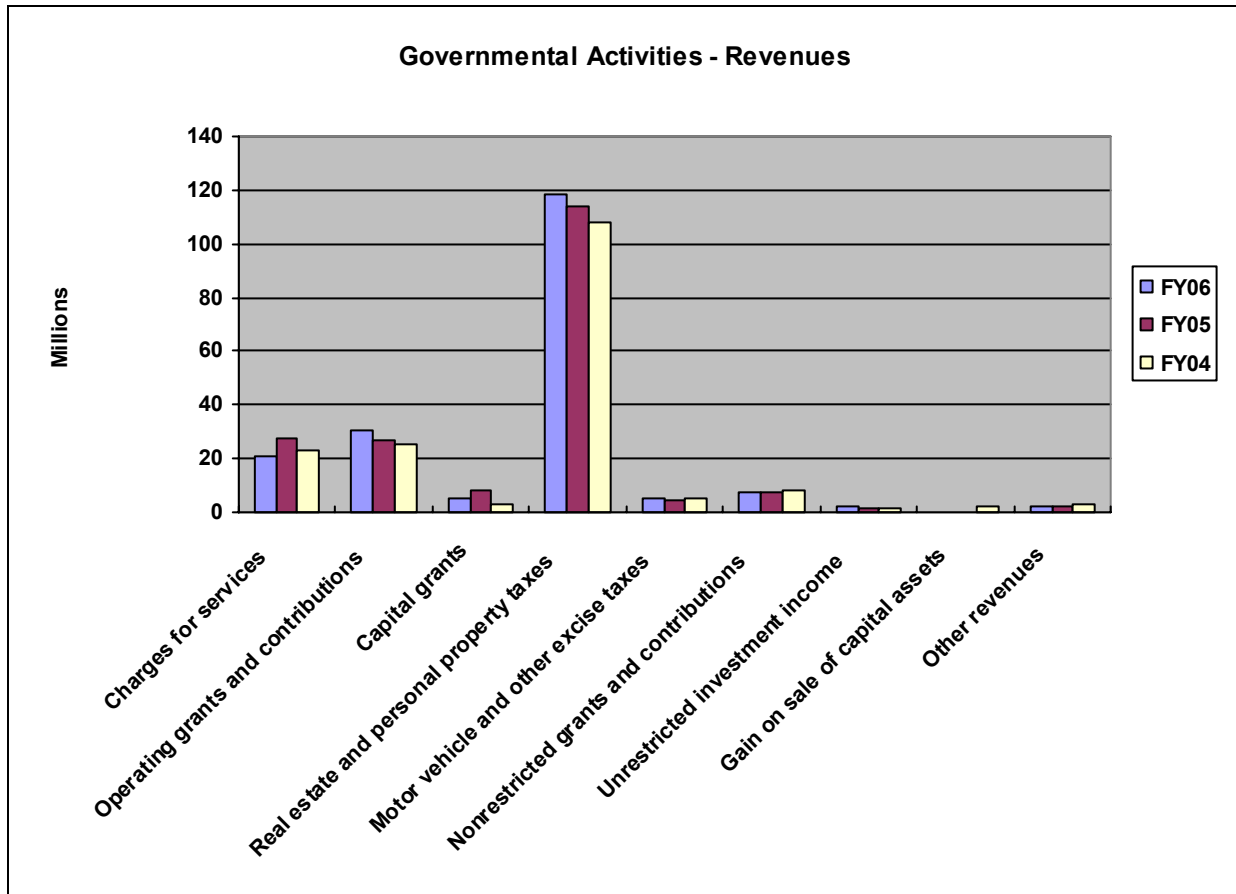
The change in capital grants and contributions from FY04 to FY06 relates to the Massachusetts School Building Assistance grants. During FY06 there were no new projects and therefore there was no capital grant revenue.

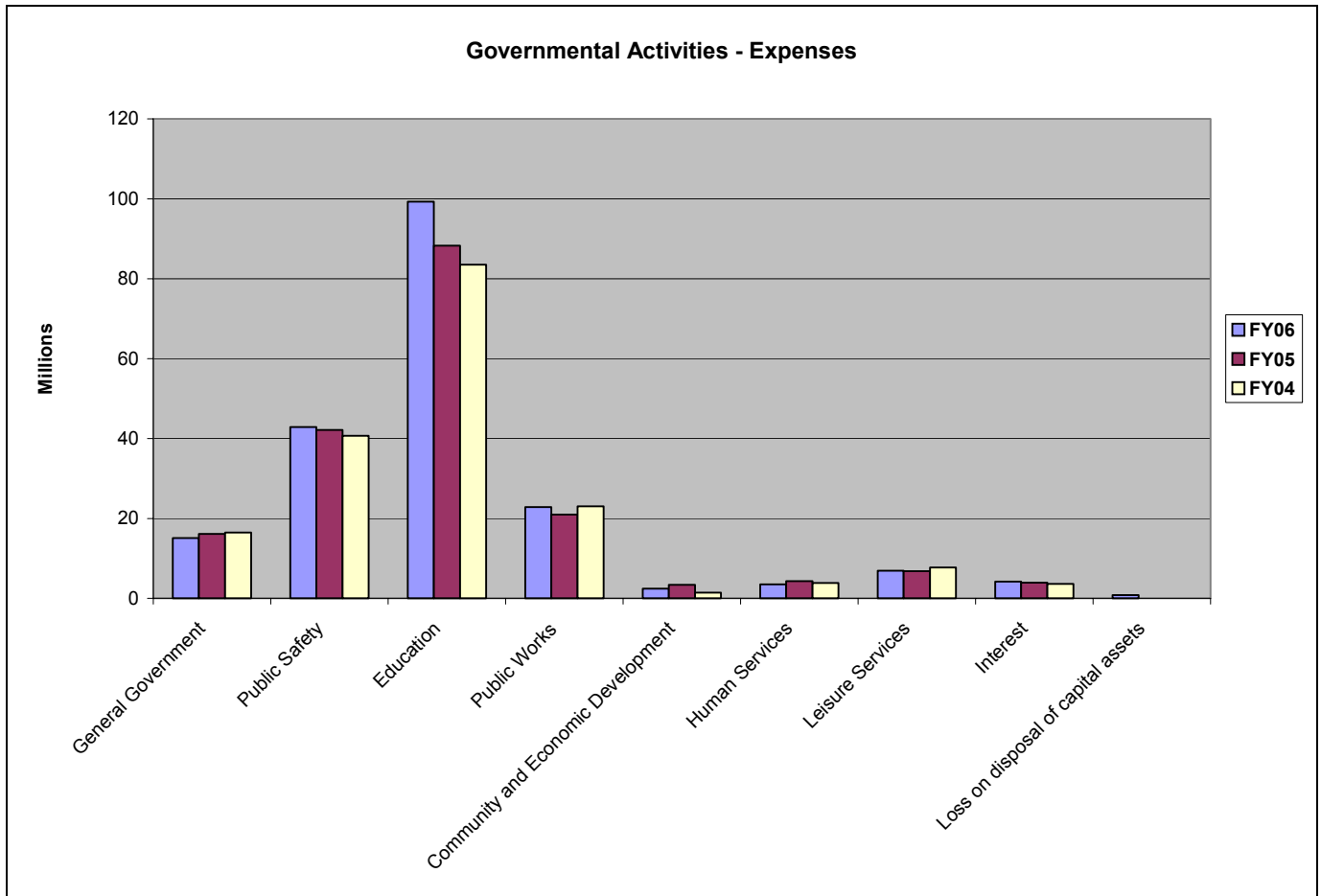
General governmental expenditures decreased by approximately \$1.0 million which relates primarily to the capitalization of fixed assets.

Education expenditures consist of \$58.7 million of budgeted general fund expenditures, \$13.0 million of special revenue expenditures, \$1.9 million of capital project expenditures, and \$20.8 million of allocated employee benefits, pension, and state & county expenditures. There was an increase of approximately \$11.7 million during fiscal year 2006. The primary components of the increase were \$3.0 million for the expenditure allocation, \$3.8 million relating to a change in estimate for the MSBA receivable, \$2.1 million related to an increase in budgeted expenditures, and \$1.5 million relates to the capitalization of fixed assets.

Some of the other major items are:

- ❖ A 4.1% increase in property tax revenue – 2.2% from recurring Proposition 2 ½ permitted increases and 1.9% from new additions to the tax rolls.
- ❖ No new additional funds in 2006 in grants related to new capital projects used to acquire capital assets, a decrease of over \$5 million from 2005.
- ❖ \$ 1.2 million increase in unrestricted grants and investments.





Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of *governmental funds* is to provide information on near term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$69.5 million, of which \$33.9 million is for the general fund, \$37.4 million is for the nonmajor funds and these are offset by a deficit of (\$1.9) million in the Lawrence School and Longwood Playground major fund.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance was \$12.1 million, while total fund balance was \$33.9 million. Reservation of fund balance for Encumbrances and Continuing Appropriations totaled \$16.4 million and there was \$5.4 million designated as amounts voted to be used in fiscal 2007. Unreserved fund balance represents .07% of total general fund expenditures, while total fund balance represents .19% of that same amount.

The Lawrence School and Longwood Playground fund is used to account for the Town's ongoing school construction project to expand and upgrade school facilities and the related playground. The fund is in a deficit position of (\$1.9) million at fiscal year end.

The fund received \$7.9 million from the Massachusetts School Building Authority during fiscal year 2006. The remaining deficit will be funded in future fiscal years through bond proceeds and available funds.

General Fund Budgetary Highlights

There was very little change between the original budget and the final amended budget. The budgetary results mirrored the fund based results. The Town has elected to carryforward encumbrances and appropriations of \$16,498,550.

Business-type Activities. Business-type activities had an increase of \$1,218,448 in net assets related to the water and sewer operations and an increase of \$299,196 related to the golf course operations, for an overall increase in net assets of \$1,517,644 for the fiscal year.

The following table identifies key elements of the enterprise operations:

	<i>FY 2006 Business-type Activities</i>	<i>FY 2005 Business-type Activities</i>	<i>FY 2004 Business-type Activities</i>
Assets:			
Current:			
Cash and short-term investments.....	\$ 2,803,438	\$ 685,412	\$ 2,114,600
Receivables, net of allowance for uncollectibles.....	6,372,001	6,227,530	6,189,235
Other current assets.....	(397,207)	(425,000)	(448,426)
Capital assets.....	38,596,083	36,658,476	35,432,589
Total assets.....	47,374,315	43,146,418	43,287,998
Liabilities:			
Current liabilities (excluding debt).....	544,971	838,246	552,489
Noncurrent liabilities (excluding debt).....	114,897	109,236	117,785
Current debt.....	7,473,510	2,122,632	2,121,957
Noncurrent debt.....	12,265,104	14,618,115	16,740,746
Total liabilities.....	20,398,482	17,688,229	19,532,977
Net Assets:			
Capital assets net of related debt.....	18,857,469	19,917,729	16,569,886
Unrestricted.....	8,118,364	5,540,460	7,185,135
Total net assets.....	26,975,833	25,458,189	23,755,021
Program revenues:			
Charges for services.....	21,755,205	21,664,557	21,521,731
Operating grants and contributions.....	21,134	-	-
Capital grants and contributions.....	337,500	-	536,265
Total revenues.....	22,113,839	21,664,557	22,057,996
Expenses:			
Golf.....	752,000	1,026,963	926,019
Water and sewer.....	17,504,969	16,743,930	17,617,601
Total expenses.....	18,256,969	17,770,893	18,543,620
Transfers In/(Out).....	(2,339,226)	(2,190,496)	(2,043,885)
Change in net assets.....	\$ 1,517,644	\$ 1,703,168	\$ 1,470,491

Capital Asset and Debt Administration

Capital Assets. The Town of Brookline's investment in capital assets for its governmental and business type activities as of June 30, 2006 amount to \$216,629,170 (net of depreciation). This investment in capital assets

includes land, buildings, improvements to land and buildings, machinery and equipment, vehicles, roads, sidewalks, bridges and water and sewer lines.

The net increase in the Town of Brookline's investment in capital assets for the current year was \$4,361,782, including a \$2,424,175 increase for governmental activities and a \$1,937,607 increase for business-type activities.

The Town's major capital projects relate to school renovations.

Major Capital asset events during the current fiscal year included the following:

- ❖ Over \$1.5 million was spent on water, sewer, and surface drainage system construction and replacement.
- ❖ Over \$3.6 million was spent on machinery and equipment.
- ❖ Over \$1 million was spent on street and sidewalk projects.
- ❖ Over \$4 million was spent on building renovations and improvements
- ❖ Approximately \$1.5 million was spent on Landfill improvements

Town of Brookline's Capital Assets (Net of Depreciation)						
	Governmental		Business –Type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Land	79,727	79,727	-	-	79,727	79,727
Construction in Progress	3,030,328	440,540	-	-	3,030,328	440,540
Land Improvements	9,695,097	10,300,301	923,898	961,748	10,618,975	11,262,049
Buildings	141,771,209	140,948,004	2,991,223	3,083,120	144,462,432	144,031,124
Machinery and Equipment	8,993,225	8,982,973	1,011,064	807,556	10,004,289	9,790,529
Infrastructure	14,463,521	14,857,367	33,669,898	31,806,052	48,133,419	46,633,419
Total	178,033,087	175,608,912	38,596,083	36,658,476	216,629,170	212,267,388

Long-term Debt. At the end of the current fiscal year, the Town of Brookline had total bonded debt outstanding of \$107,183,760. The entire amount is classified as general obligation debt and is backed by the full faith and credit of the Town. Of this amount, \$2,675,000 is in short term notes, and the remaining \$104,508,760 is in outstanding long-term debt. The Town has no revenue bonds outstanding, which are bonds secured solely by specified revenue sources. During fiscal 2006, the Town retired long term debt of \$9,221,088 and renewed short term debt outstanding of \$2,675,000.

The Town of Brookline issued \$11,480,500 in general obligation bonds to finance several capital improvements. Included in these issues was \$4,100,000 in general obligation bonds for renovations to the Health Center.

The enterprise funds have \$19,738,614 in outstanding bonds that are fully supported by the rates and do not rely on a general fund subsidy.

Requests for Information

This financial report is designed to provide a general overview of the Town of Brookline's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller at Brookline Town Hall, 333 Washington Street, Brookline, Massachusetts 02146.

You are also invited to visit our website at <http://www.town.brookline.ma.us/>.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and short-term investments.....	\$ 73,009,756	\$ 2,803,438	\$ 75,813,194
Investments.....	8,221,769	-	8,221,769
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,458,296	-	1,458,296
Tax liens.....	914,555	-	914,555
Motor vehicle excise taxes.....	458,236	-	458,236
User fees.....	115,626	-	115,626
Water and sewer fees.....	-	6,372,001	6,372,001
Departmental and other.....	4,164,291	-	4,164,291
Intergovernmental.....	9,518,402	-	9,518,402
Loans.....	290,221	-	290,221
Tax foreclosures.....	2,010	-	2,010
Internal balances.....	400,000	(400,000)	-
Other assets.....	2,135,936	-	2,135,936
Prepaid expenses.....	759	2,793	3,552
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	32,608,600	-	32,608,600
Capital assets, net of accumulated depreciation.....	178,033,087	38,596,083	216,629,170
TOTAL ASSETS.....	311,331,544	47,374,315	358,705,859
LIABILITIES			
CURRENT:			
Warrants payable.....	2,215,737	116,435	2,332,172
Accrued liabilities.....	783,336	-	783,336
Accrued payroll.....	756,083	-	756,083
Tax refunds payable.....	2,535,000	-	2,535,000
Accrued interest.....	857,994	157,352	1,015,346
Payroll withholdings.....	439,968	-	439,968
Abandoned property.....	5,997	-	5,997
Other liabilities.....	452,412	-	452,412
Customer deposits payable.....	345,789	-	345,789
Capital lease obligations.....	219,460	-	219,460
Compensated absences.....	5,570,154	271,184	5,841,338
Workers' compensation.....	1,144,000	-	1,144,000
Bonds and notes payable.....	16,688,577	7,473,510	24,162,087
NONCURRENT:			
Capital lease obligations.....	125,986	-	125,986
Landfill closure.....	12,051,000	-	12,051,000
Compensated absences.....	3,997,555	114,897	4,112,452
Workers' compensation.....	753,000	-	753,000
Bonds and notes payable.....	70,756,569	12,265,104	83,021,673
TOTAL LIABILITIES.....	119,698,617	20,398,482	140,097,099
NET ASSETS			
Invested in capital assets, net of related debt.....	126,624,544	18,857,469	145,482,013
Restricted for:			
Loans.....	290,221	-	290,221
Permanent funds:			
Expendable.....	3,981,794	-	3,981,794
Nonexpendable.....	919,815	-	919,815
Other purposes.....	19,783,919	-	19,783,919
Unrestricted.....	40,032,634	8,118,364	48,150,998
TOTAL NET ASSETS.....	\$ 191,632,927	\$ 26,975,833	\$ 218,608,760

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2006

	Program Revenues				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 15,082,397	\$ 3,516,752	\$ 332,238	\$ -	\$ (11,233,407)
Public safety.....	42,887,709	7,868,834	550,858	-	(34,468,017)
Education.....	99,264,800	4,649,837	23,438,502	-	(71,176,461)
Public works.....	22,844,858	2,816,810	1,097,367	-	(18,930,681)
Community and economic development...	2,432,429	-	1,852,756	-	(579,673)
Human services.....	3,524,414	20,515	862,104	-	(2,641,795)
Leisure services.....	6,931,335	1,634,168	140,730	-	(5,156,437)
Interest.....	4,186,691	-	2,553,253	-	(1,633,438)
Loss on disposal of capital assets.....	823,259	-	-	-	(823,259)
Total Governmental Activities.....	197,977,892	20,506,916	30,827,808	-	(146,643,168)
<i>Business-Type Activities:</i>					
Golf.....	752,000	1,196,531	-	-	444,531
Water and sewer.....	17,504,969	20,558,674	21,134	337,500	3,412,339
Total Business-Type Activities.....	18,256,969	21,755,205	21,134	337,500	3,856,870
Total Primary Government.....	\$ 216,234,861	\$ 42,262,121	\$ 30,848,942	\$ 337,500	(142,786,298)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ <u>(146,643,168)</u>	\$ <u>3,856,870</u>	\$ <u>(142,786,298)</u>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	123,144,556	-	123,144,556
Motor vehicle and other excise taxes.....	5,619,527	-	5,619,527
Hotel/motel tax.....	732,178	-	732,178
Penalties and interest on taxes.....	331,864	-	331,864
Payments in lieu of taxes.....	763,359	-	763,359
Grants and contributions not restricted to specific programs.....	8,005,995	-	8,005,995
Unrestricted investment income.....	3,484,024	-	3,484,024
Gain on sale of capital assets.....	1,867	-	1,867
Miscellaneous.....	759,998	-	759,998
<i>Transfers, net</i>	<u>2,339,226</u>	<u>(2,339,226)</u>	<u>-</u>
Total general revenues and transfers.....	<u>145,182,594</u>	<u>(2,339,226)</u>	<u>142,843,368</u>
Change in net assets.....	(1,460,574)	1,517,644	57,070
<i>Net Assets:</i>			
Beginning of year.....	<u>193,093,501</u>	<u>25,458,189</u>	<u>218,551,690</u>
End of year.....	\$ <u>191,632,927</u>	\$ <u>26,975,833</u>	\$ <u>218,608,760</u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2006

		Lawrence School & Longwood Playground Renovations	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS	General			
Cash and short-term investments.....	\$ 37,296,346	\$ 712,395	\$ 32,077,454	\$ 70,086,195
Investments.....	-	-	4,446,295	4,446,295
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	1,458,296	-	-	1,458,296
Tax liens.....	914,555	-	-	914,555
Motor vehicle excise taxes.....	458,236	-	-	458,236
User fees.....	115,626	-	-	115,626
Departmental and other.....	3,594,746	-	569,545	4,164,291
Intergovernmental.....	34,576,200	1,805,849	5,744,953	42,127,002
Loans.....	-	-	290,221	290,221
Due from other funds.....	400,000	-	-	400,000
Tax foreclosures.....	2,010	-	-	2,010
Other assets.....	2,135,936	-	-	2,135,936
Prepaid expenses.....	-	-	759	759
TOTAL ASSETS.....	\$ 80,951,951	\$ 2,518,244	\$ 43,129,227	\$ 126,599,422
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 1,249,752	\$ -	\$ 965,985	\$ 2,215,737
Accrued liabilities.....	780,734	-	2,602	783,336
Accrued payroll.....	755,446	-	637	756,083
Tax refunds payable.....	2,535,000	-	-	2,535,000
Liabilities due depositors.....	345,789	-	-	345,789
Payroll withholdings.....	439,968	-	-	439,968
Abandoned property.....	-	-	5,997	5,997
Other liabilities.....	417,437	-	34,975	452,412
Deferred revenues.....	40,448,055	1,805,849	4,628,700	46,882,604
Notes payable.....	-	2,675,000	-	2,675,000
TOTAL LIABILITIES.....	46,972,181	4,480,849	5,638,896	57,091,926
FUND BALANCES:				
Reserved for:				
Encumbrances and continuing appropriations.....	16,498,550	-	-	16,498,550
Loans.....	-	-	290,221	290,221
Perpetual permanent funds.....	-	-	919,815	919,815
Unreserved:				
Designated for subsequent year's expenditures.....	5,387,435	-	-	5,387,435
Undesignated, reported in:				
General fund.....	12,093,785	-	-	12,093,785
Special revenue funds.....	-	-	19,487,480	19,487,480
Capital projects funds.....	-	(1,962,605)	12,811,021	10,848,416
Permanent funds.....	-	-	3,981,794	3,981,794
TOTAL FUND BALANCES.....	33,979,770	(1,962,605)	37,490,331	69,507,496
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 80,951,951	\$ 2,518,244	\$ 43,129,227	\$ 126,599,422

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

FISCAL YEAR ENDED JUNE 30, 2006

Total governmental fund balances.....	\$ 69,507,496
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	178,033,087
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....	46,882,604
Internal service funds are used by management to account for liability, health insurance and workers' compensation activities.	
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....	4,802,035
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(857,994)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds and notes payable.....	(84,770,146)
Capital lease obligations.....	(345,446)
Landfill closure.....	(12,051,000)
Compensated absences.....	(9,567,709)
Net effect of reporting long-term liabilities.....	<u>(106,734,301)</u>
Net assets of governmental activities.....	<u>\$ 191,632,927</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2006

	General	Lawrence School & Longwood Playground Renovations	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 123,223,931	\$ -	\$ -	\$ 123,223,931
Motor vehicle and other excise taxes.....	5,740,712	-	-	5,740,712
Hotel/motel tax.....	732,178	-	-	732,178
Charges for services.....	3,923,804	-	-	3,923,804
Penalties and interest on taxes.....	331,864	-	-	331,864
Payments in lieu of taxes.....	763,359	-	-	763,359
Licenses and permits.....	3,999,565	-	-	3,999,565
Fines and forfeitures.....	4,046,175	-	-	4,046,175
Intergovernmental.....	26,309,586	7,898,210	10,904,117	45,111,913
Departmental and other.....	1,042,146	-	8,633,104	9,675,250
Contributions.....	-	-	1,492,853	1,492,853
Investment income.....	2,250,854	-	898,707	3,149,561
TOTAL REVENUES.....	172,364,174	7,898,210	21,928,781	202,191,165
EXPENDITURES:				
Current:				
General government.....	8,287,099	-	4,256,704	12,543,803
Public safety.....	31,558,423	-	705,250	32,263,673
Education.....	58,373,278	440,236	14,390,302	73,203,816
Public works.....	15,947,411	1,800	354,238	16,303,449
Community and economic development.....	-	-	2,432,429	2,432,429
Human services.....	2,016,749	-	341,282	2,358,031
Leisure services.....	5,120,790	-	1,594,256	6,715,046
Pension benefits.....	19,239,559	-	-	19,239,559
Fringe benefits.....	19,466,175	-	-	19,466,175
State and county charges.....	5,084,477	-	-	5,084,477
Debt service:				
Principal.....	7,096,319	-	2,136	7,098,455
Interest.....	4,165,293	-	-	4,165,293
TOTAL EXPENDITURES.....	176,355,573	442,036	24,076,597	200,874,206
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(3,991,399)	7,456,174	(2,147,816)	1,316,959
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds and notes.....	-	1,000,000	5,360,000	6,360,000
Premium from issuance of bonds, net of expenditures...	52,539	-	-	52,539
Transfers in.....	5,196,804	-	1,414,613	6,611,417
Transfers out.....	(1,414,613)	-	(2,857,578)	(4,272,191)
TOTAL OTHER FINANCING SOURCES (USES).....	3,836,597	1,000,000	3,917,035	8,753,632
NET CHANGE IN FUND BALANCES.....	(154,802)	8,456,174	1,769,219	10,070,591
FUND BALANCES AT BEGINNING OF YEAR.....	34,134,572	(10,418,779)	35,721,112	59,436,905
FUND BALANCES AT END OF YEAR.....	\$ 33,979,770	\$ (1,962,605)	\$ 37,490,331	\$ 69,507,496

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds.....	\$ 10,070,591
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay.....	9,152,996
Depreciation expense.....	<u>(6,728,821)</u>
Net effect of reporting capital assets.....	2,424,175
<p>In the Statement of Activities, only the <i>gain</i> on the sale of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.....</p>	
	(1,867)
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>	
	(12,219,074)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>	
Capital lease financing.....	119,920
Proceeds from bonds and notes.....	(6,360,000)
Debt service principal payments.....	<u>7,098,455</u>
Net effect of reporting long-term debt.....	858,375
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>	
Net change in compensated absences accrual.....	(610,409)
Net change in accrued interest on long-term debt.....	(21,398)
Net change in landfill accrual.....	<u>(2,639,000)</u>
Net effect of recording long-term liabilities and amortizing deferred losses.....	(3,270,807)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p>	
The net activity of internal service funds is reported with Governmental Activities.....	<u>678,033</u>
Change in net assets of governmental activities.....	<u>\$ (1,460,574)</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2006

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water & Sewer	Golf Course	Total	
ASSETS				
CURRENT:				
Cash and short-term investments.....	\$ 2,720,758	\$ 82,680	\$ 2,803,438	\$ 2,923,561
Investments.....	-	-	-	3,775,474
Receivables, net of allowance for uncollectibles:				
Water and sewer fees.....	6,372,001	-	6,372,001	-
Internal balances.....	-	(400,000)	(400,000)	-
Prepaid expenses.....	1,606	1,187	2,793	-
Total current assets.....	9,094,365	(316,133)	8,778,232	6,699,035
NONCURRENT:				
Capital assets, net of accumulated depreciation.....	36,494,485	2,101,598	38,596,083	-
Total noncurrent assets.....	36,494,485	2,101,598	38,596,083	-
TOTAL ASSETS.....	45,588,850	1,785,465	47,374,315	6,699,035
LIABILITIES				
CURRENT:				
Warrants payable.....	106,073	10,362	116,435	-
Accrued interest.....	152,360	4,992	157,352	-
Compensated absences.....	248,132	23,052	271,184	-
Workers' compensation.....	-	-	-	1,144,000
Bonds and notes payable.....	7,319,958	153,552	7,473,510	-
Total current liabilities.....	7,826,523	191,958	8,018,481	1,144,000
NONCURRENT:				
Compensated absences.....	106,547	8,350	114,897	-
Workers' compensation.....	-	-	-	753,000
Bonds and notes payable.....	11,406,395	858,709	12,265,104	-
Total noncurrent liabilities.....	11,512,942	867,059	12,380,001	753,000
TOTAL LIABILITIES.....	19,339,465	1,059,017	20,398,482	1,897,000
NET ASSETS				
Invested in capital assets, net of related debt.....	17,768,132	1,089,337	18,857,469	-
Unrestricted.....	8,481,253	(362,889)	8,118,364	4,802,035
TOTAL NET ASSETS.....	\$ 26,249,385	\$ 726,448	\$ 26,975,833	\$ 4,802,035

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water & Sewer	Golf Course	Total	
OPERATING REVENUES:				
Employer contributions	\$ -	\$ -	\$ -	\$ 1,570,830
Charges for services	20,558,674	1,196,531	21,755,205	-
Intergovernmental.....	21,134	-	21,134	-
TOTAL OPERATING REVENUES	20,579,808	1,196,531	21,776,339	1,570,830
OPERATING EXPENSES:				
Cost of services and administration	16,759,625	621,556	17,381,181	-
Depreciation.....	327,441	76,934	404,375	-
Building insurance.....	-	-	-	220,500
Employee benefits	-	-	-	1,006,760
TOTAL OPERATING EXPENSES	17,087,066	698,490	17,785,556	1,227,260
OPERATING INCOME (LOSS).....	3,492,742	498,041	3,990,783	343,570
NONOPERATING REVENUES (EXPENSES):				
Investment income.....	-	-	-	334,463
Interest expense.....	(417,903)	(53,510)	(471,413)	-
Intergovernmental.....	337,500	-	337,500	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(80,403)	(53,510)	(133,913)	334,463
INCOME (LOSS) BEFORE OPERATING TRANSFERS.....	3,412,339	444,531	3,856,870	678,033
OPERATING TRANSFERS:				
Transfers out.....	(2,193,891)	(145,335)	(2,339,226)	-
TOTAL OPERATING TRANSFERS.....	(2,193,891)	(145,335)	(2,339,226)	-
CHANGE IN NET ASSETS.....	1,218,448	299,196	1,517,644	678,033
NET ASSETS AT BEGINNING OF YEAR.....	25,030,937	427,252	25,458,189	4,124,002
NET ASSETS AT END OF YEAR.....	\$ 26,249,385	\$ 726,448	\$ 26,975,833	\$ 4,802,035

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water & Sewer	Golf Course	Total	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Receipts from customers and users.....	\$ 20,414,203	\$ 1,196,531	\$ 21,610,734	\$ -
Receipts from interfund services provided.....	-	-	-	1,570,830
Receipts from other governments.....	21,134	-	21,134	-
Payments to vendors.....	(15,026,477)	(340,866)	(15,367,343)	(1,574,728)
Payments to employees.....	(1,988,474)	(364,960)	(2,353,434)	-
NET CASH FROM OPERATING ACTIVITIES.....	3,420,386	490,705	3,911,091	(3,898)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>				
Transfers out.....	(2,193,891)	(145,335)	(2,339,226)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(1,856,391)	(145,335)	(2,001,726)	-
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Proceeds from the issuance of bonds and notes.....	5,120,500	-	5,120,500	-
Acquisition and construction of capital assets.....	(2,286,779)	(55,203)	(2,341,982)	-
Principal payments on bonds and notes.....	(1,967,692)	(154,940)	(2,122,632)	-
Interest expense.....	(392,944)	(54,281)	(447,225)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	473,085	(264,424)	208,661	-
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Purchase of investments.....	-	-	-	(360,815)
Investment income.....	-	-	-	334,463
NET CASH FROM INVESTING ACTIVITIES.....	-	-	-	(26,352)
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	2,037,080	80,946	2,118,026	(30,250)
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR.....	683,678	1,734	685,412	2,953,811
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR.....	\$ 2,720,758	\$ 82,680	\$ 2,803,438	\$ 2,923,561
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>				
Operating income (loss).....	\$ 3,492,742	\$ 498,041	\$ 3,990,783	\$ 343,570
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	327,441	76,934	404,375	-
Changes in assets and liabilities:				
Charges for services receivable.....	(144,471)	-	(144,471)	-
Internal balances.....	-	(25,000)	(25,000)	-
Prepaid expenses.....	(1,606)	(1,187)	(2,793)	-
Warrants payable.....	(260,524)	(66,052)	(326,576)	(136,468)
Accrued compensated absences.....	6,804	7,969	14,773	-
Workers' compensation.....	-	-	-	(211,000)
Total adjustments.....	(72,356)	(7,336)	(79,692)	(347,468)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 3,420,386	\$ 490,705	\$ 3,911,091	\$ (3,898)

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

	Pension Trust Fund (as of December 31, 2005)	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and short-term investments.....	\$ 3,315,896	\$ 1,362,475	\$ -
Investments.....	190,428,996	2,774,436	-
Interest and dividends.....	139,500	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	9,470,532	-	173,879
Due from other funds.....	-	128,741	-
TOTAL ASSETS.....	203,354,924	4,265,652	173,879
LIABILITIES			
Warrants payable.....	9,663,529	1,824	-
Accrued liabilities.....	-	243,129	-
Other liabilities.....	-	-	45,138
Due to other funds.....	-	-	128,741
TOTAL LIABILITIES.....	9,663,529	244,953	173,879
NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ 193,691,395	\$ 4,020,699	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2006

	Pension Trust Fund (as of December 31, 2005)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 9,937,000	\$ -
Employee.....	4,787,380	-
Private donations.....	-	82,083
Total contributions.....	14,724,380	82,083
Net investment income (loss):		
Net change in fair value of investments.....	9,045,860	-
Investment income.....	4,428,669	147,217
Total investment income (loss).....	13,474,529	147,217
Less: investment expense.....	(668,153)	-
Net investment income (loss).....	12,806,376	147,217
Intergovernmental.....	794,309	-
Transfers from other systems.....	509,840	-
TOTAL ADDITIONS.....	28,834,905	229,300
DEDUCTIONS:		
Administration.....	319,411	16,898
Transfers to other systems.....	847,137	-
Retirement benefits and refunds.....	17,884,533	-
Educational scholarships.....	-	187,720
TOTAL DEDUCTIONS.....	19,051,081	204,618
CHANGE IN NET ASSETS.....	9,783,824	24,682
NET ASSETS AT BEGINNING OF YEAR.....	183,907,571	3,996,017
NET ASSETS AT END OF YEAR.....	\$ 193,691,395	\$ 4,020,699

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Brookline, Massachusetts (the Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Town accounting policies are described herein.

A. Reporting Entity

The Town was founded in 1630 as a part of Boston and was incorporated in 1705 under the Statutes of the Commonwealth of Massachusetts. The Town operates under a representative Town Meeting form of government and provides the following services to the residents of its community: administrative, public safety, public works, education, community development, water and sewer, health, elder and recreation.

The Town of Brookline is a municipal corporation that is governed by an elected Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

Blended Component Units – Blended component units are entities that are legally separate from the Town, but are so related that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town. The following component unit is blended within the primary government:

In the Fiduciary Funds:

- (1) The Brookline Contributory Retirement System (the System) was established to provide retirement benefits to Town employees, the Brookline Housing Authority employees, and their beneficiaries. The System is governed by a five-member board comprised of the Town Comptroller (ex-officio), an appointee of the Board of Selectmen, two members elected by the System's participants and one member appointed by the other four Board members. The System is presented using the accrual basis of accounting and is reported as a Pension Trust Fund in the fiduciary fund financial statements.

Availability of Financial Information for Component Units

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at Brookline Town Hall.

Joint Ventures – The Town is a member of the Massachusetts Water Resources Authority (MWRA), a joint venture with other Massachusetts governmental entities that was organized to provide water and sewer services to the respective members' Cities, Towns and Districts. Complete financial statements for the MWRA can be obtained directly from their administrative office located at 100 First Avenue, Boston, Massachusetts 02189.

The Town is also a member of the Massachusetts Bay Transportation Authority (MBTA), a joint venture with other Massachusetts governmental entities that was organized to provide public transportation services to the respective members' Cities, Towns and Districts. Complete financial statements for the MBTA can be obtained directly from their administrative office located at 10 Park Plaza, Boston, Massachusetts 02116.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days of fiscal year end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *Lawrence School and Longwood Playground Renovation Fund capital projects fund* is used to account for financial resources to expand and upgrade the school facilities and related playground.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise Funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major proprietary funds are reported:

The *water & sewer enterprise fund* is used to account for the water and sewer activities.

The *golf enterprise fund* is used to account for the Town's golf course activities.

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to health insurance, workers' compensation and municipal building insurance.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a purely custodial capacity.

Government-Wide and Fund Financial Statements

For the government-wide financial statements, and proprietary and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash and Investments*Government-Wide and Fund Financial Statements*

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

E. Accounts Receivable*Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Motor Vehicle Excise

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Refuse

Refuse fees are levied quarterly for each type of property that utilizes the collection service and are based upon a third party waste collection contract. Refuse fees are recorded receivables in the fiscal year of the levy. Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Water & Sewer

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and Sewer liens are processed annually and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

Departmental and other receivables consist primarily of police and fire details and are recorded as receivables in the fiscal year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Loans

The Department of Community and Economic Development administers loan programs that provide housing assistance to residents and capital needs assistance for small businesses. Upon issuance, a receivable is recorded for the principal amount of the loan.

The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

F. Inventories***Government-Wide and Fund Financial Statements***

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Restricted Assets

Certain assets of the enterprise fund are classified as restricted if their use is restricted by contract covenants.

H. Capital Assets*Government-Wide and Proprietary Fund Financial Statements*

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$15,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	5-50
Buildings.....	5-50
Machinery and equipment.....	3-20
Infrastructure.....	10-75

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

I. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

The general fund has provided a long-term interest free loan to the golf enterprise fund and these balances are included in the statement of net assets as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as “Due from other funds” or “Due to other funds” on the balance sheet.

The general fund has provided a long-term loan to the golf enterprise fund and these balances are included in the fund statements as “Due from other funds” or “Due to other funds”.

J. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as “Transfers, net”.

Fund Financial Statements

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

K. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. In addition, property taken by the Town through the foreclosure process is recorded as an asset and deferred revenue. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

L. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been “restricted for” the following:

“Loans” represents community development outstanding loans receivable balances.

“Permanent funds - expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements.

“Permanent funds - nonexpendable” represents amounts held in trust for which only investment earnings may be expended.

“Other” represents amounts restricted by outside sources for specific purposes.

Fund Financial Statements (Fund Balances)

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been “reserved for” the following:

“Encumbrances and continuing appropriations” represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

“Loans” represents community development outstanding loans receivable balances.

“Perpetual permanent funds” represents amounts held in trust for which only investment earnings may be expended.

Fund balances have been “designated for” the following:

“Subsequent year’s expenditures” represents amounts appropriated for the fiscal year 2006 operating budget.

M. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable material bond premium or discount.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

N. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income from the golf enterprise fund is voluntarily assigned and transferred to the general fund. The water & sewer and internal service funds retain their investment income.

O. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

P. Post Retirement Benefits*Government-Wide and Fund Financial Statements*

In addition to providing pension benefits, health and life insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health and life insurance is recognized by recording the employer's 75% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2006, this expense/expenditure totaled approximately \$5,323,000. There were 1291 participants eligible to receive benefits at June 30, 2006.

Q. Use of Estimates*Government-Wide and Fund Financial Statements*

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

R. Individual Fund Deficits

At fiscal year-end several individual fund deficits exist in the Special Revenue Fund that will be funded through grants and available fund balances in the next fiscal year.

At fiscal year-end one individual fund deficit exists in the Capital Projects Fund due to the fact long-term bonds have not been issued to permanently fund the expenditures. The Town expects to fund this deficit by issuing permanent debt in the next fiscal year.

S. Total Column*Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 - CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Short-term Investments". The deposits and investments of the pension trust fund are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). In addition, there are various restrictions limiting the amount and length of deposits and investments.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. At fiscal year-end, the carrying amount of deposits totaled \$20,625,885 and the bank balance totaled \$27,039,007. Of the bank balance, \$702,323 was covered by Federal Depository Insurance and \$26,336,684 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2005, the carrying amount of deposits for the System totaled \$102,585 and the bank balance totaled \$752,148. The entire bank balance of \$752,148 was covered by Federal Depository Insurance.

Investments

As of June 30, 2006, the Town of Brookline had the following investments:

	Maturity				
Investment Type	<u>Fair Value</u>	<u>Under 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>Over 10 Years</u>
<u>Debt Securities</u>					
United States Treasury.....	\$ 2,329,946	\$ 266,879	\$ 226,226	\$ 1,798,302	\$ 38,539
Corporate Bonds.....	12,715	-	-	9,455	3,260
Bond Mutual Funds.....	1,417,881	-	1,417,881	-	-
Government Sponsored Enterprises.....	241,310	4,109	225,442	8,407	3,351
Total Debt Securities.....	4,001,852	\$ 270,988	\$ 1,869,549	\$ 1,816,164	\$ 45,150
<u>Other Investments</u>					
Equity Securities.....	4,334,513				
Equity Mutual Funds.....	2,659,841				
Repurchase Agreements.....	2,840,395				
Money Market Mutual Funds.....	403,326				
MMDT.....	53,306,063				
Total Investments.....	\$ 67,545,990				

**System investment balances at
December 31, 2005:**

December 31, 2005:		Maturity				
Investment Type		<u>Fair Value</u>	<u>Under 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>Over 10 Years</u>
<u>Debt Securities</u>						
U.S. Government Securities.....	\$	2,638,717	\$ -	\$ 1,760,977	\$ 650,442	\$ 227,298
Corporate Bonds.....		11,459,045	700,544	3,652,569	745,815	6,360,117
Government Sponsored Enterprises.....		11,359,814	145,202	978,650	57,163	10,178,799
Total Debt Securities.....		25,457,576	\$ 845,746	\$ 6,392,196	\$ 1,453,420	\$ 16,766,214
<u>Other Investments</u>						
Equity Securities Mutual Funds.....		43,451,237				
International Securities.....		27,880,626				
PRIT Investments.....		62,924,988				
Alternative Investments-Real Estate.....		30,714,569				
Money Market Mutual Funds.....		3,213,313				
Total Investments.....	\$	193,642,309				

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Town's investments \$2,329,946 in U.S. Treasury Securities, \$12,715 in corporate bonds, \$1,417,881 in Bond Mutual Funds, \$69,431 in Federal National Mortgage Association, \$169,190 in Federal Home Loan Mortgages, \$2,689 in Governmental National Mortgage Association and \$6,994,354 in Equity Securities, the Town has custodial credit risk exposure of \$10,996,206 because the related securities are uninsured, unregistered and held by the counterparty.

The Town has an investment policy for custodial credit risk that states; 1) a maximum of 70% of the Town's portfolio can be in equity securities and further that any one security can makeup only 5% of the Town's portfolio, 2) a maximum of 50% of the Town's portfolio can be in fixed income securities, 3) a maximum of 20% of the Town's portfolio can be in cash. The policy also states that there are no limits or restrictions with respect to U.S. Government Securities and that the minimum rating of bonds shall be investment grade.

Interest Rate Risk

Pursuant to Massachusetts Law, Chapter 34 of the acts of 2006, the Town's formal investment policy limits the selection of investments to the prudent investor rule, which states that the trustee should exercise reasonable care, skill, and caution. The Town contracts with an investment manager who assists the Town in managing the investment exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Town has adopted a formal policy related to credit risk. At June 30, 2006 the Town's debt securities were rated as follows:

Rated Debt Investments - Town's

Quality Ratings	United States Treasury	Corporate Bonds	Government Sponsored Enterprises	Totals
AAA.....	\$ 2,329,946	\$ 9,455	\$ 241,310	\$ 2,580,711
Baa3.....	-	3,260	-	3,260
Fair Value.....	\$ <u>2,329,946</u>	\$ <u>12,715</u>	\$ <u>241,310</u>	\$ <u>2,583,971</u>

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the System will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the System's investments \$2,638,717 in U.S. Treasury Securities, \$11,459,045 in corporate bonds, \$5,954,098 in Federal National Mortgage Association, \$3,984,106 in Federal Home Loan Mortgages, \$1,421,610 in Government National Mortgage Association and \$164,971,420 in Equity Securities, the Town has custodial credit risk exposure of \$190,428,996 because the related securities are uninsured, unregistered and held by the counterparty.

The System has an investment policy for custodial credit risk that states the System is willing to accept a level of market risk consistent with moderate interim volatility without sacrificing the potential for long term real growth of assets. To accomplish this goal the System will utilize extensive diversification to minimize company and industry specific risks while avoiding extreme levels of volatility that could adversely affect the Systems' participants.

Interest Rate Risk

The System has a formal investment policy that establishes the objectives and constraints that govern the investment of the System's assets. The System's assets are structured to provide growth from capital gains and income, while maintaining sufficient liquidity to meet beneficiary payments. When managing assets the System at all times must be in accordance with the provisions of the Public Employee Retirement Administration Commission (PERAC), the Employee Retirement Income Security Act (ERISA) and Department of Labor regulations.

Credit Risk

The System has adopted a formal policy related to Credit Risk. At December 31, 2005 the System's debt securities were rated as follows:

Rated Debt Investments - System's

Quality Ratings	U.S. Government Obligations	Corporate Bonds	Government Sponsored Enterprises	Totals
AAA.....	\$ 2,638,717	\$ 5,643,839	\$ 11,359,814	\$ 19,642,370
A1.....	-	25,292	-	25,292
A2.....	-	436,943	-	436,943
A3.....	-	162,587	-	162,587
Aa1.....	-	1,042,620	-	1,042,620
Aa2.....	-	215,391	-	215,391
Aa3.....	-	648,816	-	648,816
Baa1.....	-	210,547	-	210,547
Baa2.....	-	501,686	-	501,686
Baa3.....	-	66,442	-	66,442
Unrated.....	-	2,504,882	-	2,504,882
Fair Value.....	\$ <u>2,638,717</u>	\$ <u>11,459,045</u>	\$ <u>11,359,814</u>	\$ <u>25,457,576</u>

Concentration of Credit Risk

The System places no limit on the amount the government may invest in any one issuer. More than 5% of the Systems investments are in the following securities:

Investments in excess of 5% of the System's total investments

<u>Issuer</u>	<u>Percentage Of Total Investments</u>
Federal National Mortgage Association.....	14.64%
T Rowe Price Install Small Cap.....	8.08%
SSGA Flagship S+P 500 Index.....	19.59%

NOTE 3 – RECEIVABLES

At June 30, 2006, receivables for the individual major governmental funds and non-major internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Real estate and personal property taxes....	\$ 1,458,296	\$ -	\$ 1,458,296
Tax liens.....	914,555	-	914,555
Motor vehicle and other excise taxes.....	916,597	(458,361)	458,236
User fees.....	115,626	-	115,626
Departmental and other.....	6,131,097	(1,966,806)	4,164,291
Intergovernmental.....	42,127,002	-	42,127,002
Loans.....	290,221	-	290,221
Tax foreclosures.....	2,010	-	2,010
Total.....	<u>\$ 51,955,404</u>	<u>\$ (2,425,167)</u>	<u>\$ 49,530,237</u>

At June 30, 2006, receivables for the water and sewer enterprise funds consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Water and sewer fees.....	<u>\$ 6,372,001</u>	<u>\$ -</u>	<u>\$ 6,372,001</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

Type:	General Fund	Other Governmental Funds	Total
Real estate and personal property taxes....	\$ 638,986	\$ -	\$ 638,986
Real estate tax deferrals.....	212,310	-	212,310
Tax liens.....	783,289	-	783,289
Motor vehicle and other excise taxes.....	174,436	-	174,436
User fees.....	120,762	-	120,762
Departmental and other.....	3,940,062	35,481	3,975,543
Intergovernmental.....	34,576,200	6,399,068	40,975,268
Tax foreclosures.....	2,010	-	2,010
Total.....	<u>\$ 40,448,055</u>	<u>\$ 6,434,549</u>	<u>\$ 46,882,604</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 79,727	\$ -	\$ -	\$ 79,727
Construction in progress.....	440,540	2,734,162	(144,374)	3,030,328
Total capital assets not being depreciated.....	<u>520,267</u>	<u>2,734,162</u>	<u>(144,374)</u>	<u>3,110,055</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	16,295,681	597,094	(674,335)	16,218,440
Buildings.....	204,593,107	6,061,625	(12,918)	210,641,814
Machinery and equipment.....	27,237,838	2,791,361	(2,970,105)	27,059,094
Infrastructure.....	39,208,636	1,047,675	(277,189)	39,979,122
Total capital assets being depreciated.....	<u>287,335,262</u>	<u>10,497,755</u>	<u>(3,934,547)</u>	<u>293,898,470</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(5,995,380)	(580,985)	53,002	(6,523,363)
Buildings.....	(63,645,103)	(5,227,171)	1,669	(68,870,605)
Machinery and equipment.....	(18,254,865)	(2,590,431)	2,779,427	(18,065,869)
Infrastructure.....	(24,351,269)	(1,441,521)	277,189	(25,515,601)
Total accumulated depreciation.....	<u>(112,246,617)</u>	<u>(9,840,108)</u>	<u>3,111,287</u>	<u>(118,975,438)</u>
Total governmental activities capital assets, net.....	<u>\$ 175,608,912</u>	<u>\$ 3,391,809</u>	<u>\$ (967,634)</u>	<u>\$ 178,033,087</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Water & Sewer Activities:				
<u>Capital assets being depreciated:</u>				
Land improvements.....	\$ 201,230	\$ -	\$ -	\$ 201,230
Buildings.....	2,459,735	-	-	2,459,735
Machinery and equipment.....	2,075,833	371,285	(62,495)	2,384,623
Infrastructure.....	44,675,643	1,915,494	-	46,591,137
Total capital assets being depreciated.....	49,412,441	2,286,779	(62,495)	51,636,725
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(19,896)	(7,622)	-	(27,518)
Buildings.....	(704,447)	(54,229)	-	(758,676)
Machinery and equipment.....	(1,283,360)	(213,942)	62,495	(1,434,807)
Infrastructure.....	(12,869,591)	(51,648)	-	(12,921,239)
Total accumulated depreciation.....	(14,877,294)	(327,441)	62,495	(15,142,240)
Total capital assets being depreciated, net.....	\$ 34,535,147	\$ 1,959,338	\$ -	\$ 36,494,485
Golf Course Activities:				
<u>Capital assets being depreciated:</u>				
Land improvements.....	\$ 917,588	\$ -	\$ -	\$ 917,588
Buildings.....	1,557,630	1,285	-	1,558,915
Machinery and equipment.....	17,500	53,918	-	71,418
Total capital assets being depreciated.....	2,492,718	55,203	-	2,547,921
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(137,174)	(30,228)	-	(167,402)
Buildings.....	(229,798)	(38,953)	-	(268,751)
Machinery and equipment.....	(2,417)	(7,753)	-	(10,170)
Total accumulated depreciation.....	(369,389)	(76,934)	-	(446,323)
Total capital assets being depreciated, net.....	\$ 2,123,329	\$ (21,731)	\$ -	\$ 2,101,598

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government.....	\$	171,534
Public safety.....		1,390,622
Education.....		4,238,379
Public works.....		3,327,169
Human services.....		557,186
Leisure services.....		155,218

Total depreciation expense - governmental activities.....	\$	<u>9,840,108</u>
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Business-Type Activities:

Water and Sewer.....	\$	327,441
Golf.....		76,934

Total depreciation expense - business-type activities.....	\$	<u>404,375</u>
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NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2006, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	1,414,613	\$ 1,414,613
Nonmajor Governmental Funds.....	2,857,578	-	2,857,578
Water & Sewer Enterprise Fund.....	2,193,891	-	2,193,891
Golf Enterprise Fund.....	145,335	-	145,335
	<u>\$ 5,196,804</u>	<u>\$ 1,414,613</u>	<u>\$ 6,611,417</u>

Transfers represent amounts voted to fund the fiscal year 2006 operating budget.

NOTE 6 - CAPITAL LEASES

The Town has entered into several lease agreements to finance the acquisition of equipment with an original cost of \$1,438,002. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments at June 30, 2006, are as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2007.....	229,852
2008.....	130,005
Total minimum lease payments.....	359,857
Less: amounts representing interest.....	(14,411)
Present value of minimum lease payments.....	<u>\$ 345,446</u>

NOTE 7 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise funds.

Details related to the short-term debt activity for the fiscal year ended June 30, 2006, is as follows:

<u>Type</u>	<u>Purpose</u>	<u>Rate (%)</u>	<u>Due Date</u>	<u>Balance at June 30, 2005</u>	<u>Renewed/ Issued</u>	<u>Retired/ Redeemed</u>	<u>Balance at June 30, 2006</u>
BAN	School Remodeling-Lawrence	2.34	08/15/05	\$ 7,825,000	\$ -	\$ 7,825,000	\$ -
BAN	School Remodeling-Lawrence	2.67	04/13/06	3,675,000	-	3,675,000	-
BAN	School Remodeling-Lawrence	4.00	07/27/06	-	2,675,000	-	2,675,000
Total.....				<u>\$ 11,500,000</u>	<u>\$ 2,675,000</u>	<u>\$ 11,500,000</u>	<u>\$ 2,675,000</u>

On July 27, 2006, the Town paid down \$1,909,000 of the note outstanding, and renewed the remaining balance of \$766,000 at an interest rate of 4.00%, payable on May 17, 2007.

NOTE 8 - LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 2 1/2% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

In previous fiscal years, certain general obligation bonds and enterprise fund bonds were defeased by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the Town's basic financial statements. At June 30, 2006, approximately \$1,900,000 of Governmental and \$1,510,000 of Enterprise Fund bonds outstanding from the advance refunding are considered defeased.

GOVERNMENTAL FUNDS

Project	Interest Rate (%)	Outstanding at June 30, 2005	Issued	Redeemed	Outstanding at June 30, 2006
<i>Inside Debt Limit</i>					
Schools.....	2.59-5.91	\$ 25,874,726	\$ 1,000,000	\$ 3,112,758	\$ 23,761,968
General Government.....	3.22-5.28	22,419,208	5,360,000	2,190,031	25,589,177
Athletic and recreational facilities.....	3.94-4.94	424,667	-	155,667	269,000
Sub-total.....		48,718,601	6,360,000	5,458,456	49,620,145
<i>Outside Debt Limit</i>					
Schools.....	5.33 - 5.35	36,790,000	-	1,640,000	35,150,000
Total Government Bonds and Notes Payable.....		85,508,601	6,360,000	7,098,456	84,770,145

ENTERPRISE FUNDS***Inside Debt Limit***

Golf Course Enterprise Fund.....	3.19-3.90	1,167,202	-	154,940	1,012,262
Water Enterprise Fund.....	3.90-6.63	10,054,197	2,000,000	1,291,605	10,762,592
Sewer Enterprise Fund.....	3.90-5.28	5,519,348	3,120,500	676,087	7,963,761
Total Enterprise Bonds and Notes Payable.....		16,740,747	5,120,500	2,122,632	19,738,615
Total Bonds and Notes Payable.....		\$ 102,249,348	\$ 11,480,500	\$ 9,221,088	\$ 104,508,760

Debt service requirements for principal and interest for Governmental bonds payable in future fiscal years are as follows:

GOVERNMENTAL FUNDS, DEBT SERVICE PAYMENTS

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007..... \$	7,343,577 \$	3,701,596 \$	11,045,173
2008.....	7,049,036	3,428,439	10,477,475
2009.....	6,852,309	3,152,921	10,005,230
2010.....	6,926,177	2,886,617	9,812,794
2011.....	6,659,999	2,610,079	9,270,078
2012.....	6,381,239	2,344,503	8,725,742
2013.....	6,001,633	2,082,500	8,084,133
2014.....	5,360,588	1,809,451	7,170,039
2015.....	4,917,794	1,557,557	6,475,351
2016.....	4,657,794	1,314,471	5,972,265
2017.....	4,590,000	1,092,906	5,682,906
2018.....	4,555,000	866,307	5,421,307
2019.....	4,540,000	638,283	5,178,283
2020.....	4,720,000	409,516	5,129,516
2021.....	1,110,000	175,592	1,285,592
2022.....	1,110,000	130,553	1,240,553
2023.....	600,000	84,129	684,129
2024.....	595,000	59,083	654,083
2025.....	595,000	33,898	628,898
2026.....	205,000	8,709	213,709
Totals..... \$	<u>84,770,146 \$</u>	<u>28,387,110 \$</u>	<u>113,157,256</u>

Debt service requirements for principal and interest for enterprise fund bonds and notes payable in future fiscal years are as follows:

ENTERPRISE FUNDS, DEBT SERVICE PAYMENTS

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007..... \$	2,353,010 \$	772,582 \$	3,125,592
2008.....	2,129,551	702,863	2,832,414
2009.....	1,986,278	632,825	2,619,103
2010.....	1,851,323	565,178	2,416,501
2011.....	1,847,501	495,003	2,342,504
2012.....	1,608,761	425,266	2,034,027
2013.....	1,548,366	360,461	1,908,827
2014.....	1,509,412	296,189	1,805,601
2015.....	1,202,206	228,412	1,430,618
2016.....	1,202,206	172,275	1,374,481
2017.....	950,000	118,268	1,068,268
2018.....	615,000	73,980	688,980
2019.....	395,000	43,962	438,962
2020.....	395,000	24,725	419,725
2021.....	145,000	5,797	150,797
Totals..... \$	<u>19,738,614 \$</u>	<u>4,917,786 \$</u>	<u>24,656,400</u>

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA consists of a grant and non-interest bearing loan. The loan portion is payable in five equal annual installments. At June 30, 2006, the outstanding principal amount of this loan totaled \$393,261.

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the School Building Assistance Bureau, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2006, \$11,341,004 of such assistance was received for reimbursement. Approximately \$47,884,000 will be received in future fiscal years. Of this amount, \$11,502,000 represents reimbursement of long-term interest costs, and approximately \$36,382,000 represents reimbursement of approved construction costs. Accordingly, a \$36,382,000 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2006, the Town had the following authorized and unissued debt:

Purpose	Amount
Lawrence School.....	\$ 2,675,000
Putterham Golf Course.....	1,740,000
Wastewater Systems.....	6,224,065
Storm Drain Improvements.....	500,000
Muddy River Project.....	745,000
Landfill.....	2,000,000
Swimming Pool.....	1,600,000
Skating Rink.....	260,000
Total.....	<u>\$ 15,744,065</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2006, the following changes occurred in long-term liabilities:

Governmental Funds

	Balance June 30, 2005	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2006	Current Portion
Long-Term Bonds and Notes.....	\$ 85,508,601	\$ 6,360,000	\$ (7,098,456)	\$ -	\$ 84,770,145	\$ 7,343,577
Workers' Compensation.....	2,108,000	-	-	(211,000)	1,897,000	1,144,000
Compensated Absences.....	8,012,751	-	-	1,554,958	9,567,709	5,570,154
Landfill Closure.....	9,412,000	-	-	2,639,000	12,051,000	-
Total.....	<u>\$ 105,041,352</u>	<u>\$ 6,360,000</u>	<u>\$ (7,098,456)</u>	<u>\$ 3,982,958</u>	<u>\$ 108,285,854</u>	<u>\$ 14,057,731</u>

Business-Type Activities

	June 30, 2005	Notes Issued	Notes Redeemed	Increase (Decrease)	June 30, 2006	Current Portion
Long-Term Bonds and Notes..... \$	16,740,747	\$ 5,120,500	\$ (2,122,632)	\$ -	\$ 19,738,615	\$ 2,353,010
Compensated Absences.....	397,189	-	-	(11,108)	386,081	271,184
Total..... \$	<u>17,137,936</u>	<u>\$ 5,120,500</u>	<u>\$ (2,122,632)</u>	<u>\$ (11,108)</u>	<u>\$ 20,124,696</u>	<u>\$ 2,624,194</u>

Internal service funds predominantly serve the governmental funds. Accordingly, the internal service fund's long term liabilities are included as part of the governmental activities totals above. At fiscal year end, \$1,897,000 of internal service funds accrued liabilities is included above. Except for the amounts related to the internal service funds and a portion of the bonds, the governmental activities long-term liabilities are generally liquidated by the general fund.

NOTE 9 – RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance.

The Town is self-insured for its workers' compensation, unemployment and municipal building insurance activities. These activities are accounted for in the internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred. Any incurred but not reported related to unemployment and municipal building insurance is deemed immaterial and is therefore not recorded.

(a) Workers' Compensation

Workers' compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The Town purchases individual stop loss insurance for claims in excess of the coverage provided by the Town in the amount of \$780,000. The estimated future workers' compensation liability is based on history and injury type.

At June 30, 2006, the amount of the liability for workers' compensation claims totaled \$1,897,000. Changes in the reported liability since July 1, 2005, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2005.....	\$ 2,996,000	\$ 422,200	\$ (1,310,200)	\$ 2,108,000
Fiscal Year 2006.....	2,108,000	1,008,693	(1,219,693)	1,897,000

NOTE 10 - PENSION PLAN

Plan Description - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Brookline Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$9,370,000 for the fiscal year ended June 30, 2006, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Brookline Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at Brookline Town Hall, 333 Washington Street, Brookline, Massachusetts 02146.

At December 31, 2005, the System's membership consists of the following:

Active members.....	1599
Inactive members.....	765
Disabled members.....	194
Retirees and beneficiaries currently receiving benefits.....	<u>647</u>
Total.....	<u><u>3205</u></u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute approximately 97%, of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

Annual Pension Cost - The Town contributions to the System for the fiscal years ended June 30, 2006, 2005, and 2004 were approximately \$9,600,000, \$9,200,000, and \$9,300,000, respectively, which equaled its required contribution for each fiscal year. At June 30, 2006, the Town did not have a net pension obligation. The required contribution was determined as part of an actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.25% investment rate of return and projected salary increases of 5% per year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2006 was 17 years.

Schedule of Funding Progress (Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/06	\$ 190,818,205	\$ 299,355,769	\$ 108,537,564	63.7%	\$ 58,277,406	186.2%
1/1/04	177,153,465	265,441,629	88,288,164	66.7%	52,378,086	168.6%
1/1/02	171,285,347	250,478,343	79,192,996	68.4%	45,109,610	175.6%
1/1/00	160,983,529	217,964,030	56,980,501	73.9%	43,028,894	132.4%
1/1/98	121,604,190	192,305,540	70,701,350	63.2%	40,150,666	176.1%

Funding progress is reported based on the biennial actuarial valuation performed by the System, and is being accumulated on a biennial basis. The Town is responsible for approximately 97% of the unfunded liability.

Noncontributory Retirement Allowance – The Town pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2006 totaled approximately \$467,000.

NOTE 11 - LANDFILL CLOSURE COSTS

State and federal laws and regulations require the Town to close its old landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The Town operated a solid waste landfill that ceased operations in 1972. The Town has reflected \$12,051,000 as the estimate of the landfill closure liability at June 30, 2006. This amount is based on estimates of what it would cost to perform all future closure and post closure care in fiscal year 2006. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 12 – INTERFUND LOAN

On June 12, 2001, The General Fund issued an interest free note in the amount of \$500,000 to Putterham Meadows Golf Club Enterprise Fund to meet projected and capital expenses. The note is payable at \$25,000 per year, due on July 1 of each year. At June 30, 2006 the outstanding loan balance was \$400,000.

NOTE 13 - COMMITMENTS

The Town has entered into a long-term contract with Arthur Schofield, Inc. to direct the acceptable waste it collects to a transfer station. The Town is charged a flat rate per ton that is subject to increase annually. There are no minimum tonnage requirements that the Town must comply with.

The Town has entered into a long-term contract with Browning Ferris Industries to provide recycling services. The Town is charged a flat rate of \$73.10 per ton of acceptable waste collected and hauled. There are no minimum tonnage requirements that the Town must comply with.

The School Department has entered into two agreements with Eastern Bus Company and First Student, Inc. to provide for regular transportation. The contracts bear an annual cost of approximately \$278,000 and \$343,500, respectively. The regular school transportation contracts expire on August 31, 2008.

The School Department has also entered into an agreement with Y.C.N. Transportation, Inc. and Transcomm, Inc. to provide transportation of its special needs students. The contracts bear an annual cost of approximately \$531,700 and \$163,600, respectively. The special needs student transportation contracts expire on August 31, 2008.

The Town has entered into, or is planning to enter into, contracts totaling approximately \$26,000,000 for the remodeling/renovations of the Lawrence school and Town Hall, the upgrading and replacing of water meters, storm drain improvements, and renovations of the Putterham golf course.

NOTE 14 - CONTINGENCIES

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2006, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2006, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2006.

NOTE 15 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2006, the following GASB pronouncements were implemented:

The GASB issued Statement #42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is required to be implemented in Fiscal 2006. This statement did not impact the basic financial statements.

The GASB issued Statement #44, *Economic Condition Reporting: The Statistical Section*, which is required to be implemented in Fiscal 2006. This new GASB updates the statistical section that accompanies a state or local government's basic financial statements. This statement did not impact the basic financial statements.

The GASB issued Statement # 46, *Net Assets Restricted by Legislation an amendment of GASB Statement No. 34*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. It requires governments to disclose the portion of total net assets that is restricted by enabling legislation. This statement did not impact the basic financial statements.

The GASB issued Statement # 47, *Accounting for Termination Benefits*. The Statement provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated. The Statement requires that similar forms of termination benefits be accounted for in the same manner and is intended to enhance both the consistency of reporting for termination benefits and the comparability of financial statements. This statement did not impact the basic financial statements.

The GASB issued Statement #48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* which is required to be implemented in FY2008. Management has elected to implement this GASB early. This statement did not impact the basic financial statements.

Future GASB Pronouncements:

The GASB issued Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in Fiscal 2007. Management believes that this will have an impact on the basic financial statements.

The GASB issued Statement #45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented in Fiscal 2008. Management believes that this will have an impact on the basic financial statements.

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Required Supplementary Information

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 123,524,395	\$ 123,524,395	\$ 123,533,953
Motor vehicle and other excise taxes.....	-	5,250,000	5,250,000	5,250,000
Hotel/motel tax.....	-	650,000	650,000	650,000
Charges for services.....	-	3,900,000	3,900,000	3,497,300
Penalties and interest on taxes.....	-	310,000	310,000	309,500
Payments in lieu of taxes.....	-	738,800	738,800	738,800
Licenses and permits.....	-	2,391,500	2,391,500	2,961,500
Fines and forfeitures.....	-	4,000,000	4,000,000	3,830,700
Intergovernmental.....	-	16,747,419	16,747,419	17,084,831
Departmental and other.....	-	540,000	540,000	147,500
Investment income.....	-	1,020,000	1,020,000	1,020,000
TOTAL REVENUES.....	-	159,072,114	159,072,114	159,024,084
EXPENDITURES:				
Current:				
General government.....	1,112,919	9,415,385	10,528,304	11,474,497
Public safety.....	5,680,548	32,341,637	38,022,185	33,406,794
Education.....	15,198	58,231,627	58,246,825	60,381,419
Public works.....	10,847,151	16,111,399	26,958,550	26,838,839
Human services.....	6,813	2,071,570	2,078,383	2,078,383
Leisure services.....	239,083	4,552,390	4,791,473	6,445,788
Pension benefits.....	-	9,921,963	9,921,963	9,921,963
Employee benefits.....	25,000	19,313,060	19,338,060	19,338,060
State and county charges.....	-	5,251,146	5,251,146	5,251,146
Debt service:				
Principal.....	-	7,097,955	7,097,955	7,097,955
Interest.....	-	4,176,586	4,176,586	4,176,586
TOTAL EXPENDITURES.....	17,926,712	168,484,718	186,411,430	186,411,430
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(17,926,712)	(9,412,604)	(27,339,316)	(27,387,346)
OTHER FINANCING SOURCES (USES):				
Premium from issuance of bonds, net of expenditures.....	-	-	-	-
Sale of capital assets.....	-	-	-	-
Transfers in.....	-	5,196,804	5,196,804	5,196,804
Transfers out.....	-	(164,004)	(164,004)	(164,004)
TOTAL OTHER FINANCING SOURCES (USES).....	-	5,032,800	5,032,800	5,032,800
NET CHANGE IN FUND BALANCE.....	(17,926,712)	(4,379,804)	(22,306,516)	(22,354,546)
BUDGETARY FUND BALANCE, Beginning of year.....	-	36,205,286	36,205,286	36,205,286
BUDGETARY FUND BALANCE, End of year.....	\$ (17,926,712)	\$ 31,825,482	\$ 13,898,770	\$ 13,850,740

See notes to basic financial statements.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$	122,755,631	\$ -	\$ (778,322)
	5,456,912	-	206,912
	732,178	-	82,178
	3,923,804	-	426,504
	331,864	-	22,364
	763,359	-	24,559
	3,999,565	-	1,038,065
	4,046,175	-	215,475
	16,939,586	-	(145,245)
	1,042,146	-	894,646
	2,250,854	-	1,230,854
	<u>162,242,074</u>	<u>-</u>	<u>3,217,990</u>
	8,443,291	1,520,851	1,510,355
	31,689,583	1,618,485	98,726
	58,667,747	1,710,045	3,627
	16,222,696	10,524,437	91,706
	2,016,749	28,659	32,975
	5,301,638	1,047,034	97,116
	9,869,559	-	52,404
	19,298,963	49,039	(9,942)
	5,084,477	-	166,669
	7,096,319	-	1,636
	4,165,293	-	11,293
	<u>167,856,315</u>	<u>16,498,550</u>	<u>2,056,565</u>
	<u>(5,614,241)</u>	<u>(16,498,550)</u>	<u>5,274,555</u>
	52,539	-	52,539
	1,867	-	1,867
	5,196,804	-	-
	<u>(206,216)</u>	<u>-</u>	<u>(42,212)</u>
	<u>5,044,994</u>	<u>-</u>	<u>12,194</u>
	(569,247)	(16,498,550)	5,286,749
	36,205,286	-	-
\$	<u>35,636,039</u>	<u>(16,498,550)</u>	<u>5,286,749</u>

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**A. Budgetary Information**

Municipal Law requires the Town to adopt a balanced budget that is approved at the Annual Town Meeting. The Advisory Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Expenditures are budgeted for each department by four major appropriation units, which are personal services, expenses, debt service and capital outlay that are mandated by Municipal Law. The Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Amendments to the originally adopted budget and transfers between departments require the approval of Town Meeting. Transfers between appropriation units within a department (except for the School Department and Library) require the approval of the Town Administrator, and are subject to certain restrictions that may require authorization from the Board and Advisory Committee. Expenditures within the appropriation of the School Department are not restricted. Transfers between Library appropriation units require the approval of the Board of Library Trustees.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year's original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of Town Meeting.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2006 approved budget, including amounts carried forward from the prior fiscal years authorized approximately \$182,803,000 in appropriations and other amounts to be raised. During fiscal year 2006, Town Meeting also approved supplemental appropriations totaling \$3,608,000.

The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2006, is presented below:

Excess of revenues and other financing sources (uses) over expenditures - budgetary basis.....	\$	(569,247)
<u>Basis of accounting differences:</u>		
Recognition of expenditures on modified accrual basis.....		(337,655)
Net change in recording 60-day receipts accrual.....		1,015,100
Tax refunds payable.....		<u>(263,000)</u>
Excess of revenues and other financing sources (uses) over expenditures - GAAP basis.....	\$	<u>(154,802)</u>

C. Appropriation Deficits

During fiscal year 2006, expenditures exceeded budgeted appropriations for employee benefits by \$9,942. This deficit will be funded through tax levy and available funds in fiscal year 2007.

TOWN OF BROOKLINE, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

FISCAL YEAR ENDED JUNE 30, 2006

TOWN OF BROOKLINE, MASSACHUSETTS
REPORTS ON FEDERAL AWARD PROGRAMS
FISCAL YEAR ENDED JUNE 30, 2006

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

To the Honorable Board of Selectmen
Town of Brookline, Massachusetts

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Brookline, Massachusetts, as of and for the fiscal year ended June 30, 2006, (except for the Brookline Contributory Retirement System which is as of and for the year ended December 31, 2005), which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Town of Brookline's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Brookline's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Town of Brookline in a separate letter dated October 19, 2006.

This report is intended solely for the use of management of the Town of Brookline, Massachusetts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

October 19, 2006



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Honorable Board of Selectmen
Town of Brookline, Massachusetts

Compliance

We have audited the compliance of the Town of Brookline, Massachusetts, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006. The Town of Brookline's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Brookline's management. Our responsibility is to express an opinion on the Town of Brookline's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Brookline's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Brookline's compliance with those requirements.

In our opinion, the Town of Brookline, Massachusetts, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006.

Internal Control Over Compliance

The management of the Town of Brookline, Massachusetts, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Brookline's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the use of management of the Town of Brookline, Massachusetts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in cursive script, appearing to read "Rivers + Sullivan".

October 19, 2006



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INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Honorable Board of Selectmen
Town of Brookline, Massachusetts

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Brookline, Massachusetts, as of and for the fiscal year ended June 30, 2006, (except for the Brookline Contributory Retirement System which is as of and for the year ended December 31, 2005), and have issued our report thereon dated October 19, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management of the Town of Brookline, Massachusetts, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

October 19, 2006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:		
<u>Passed through State Department</u>		
<u>of Education:</u>		
Food Distribution	10.550	\$ 56,251
School Breakfast Program	10.553	57,468
National School Lunch Program	10.555	276,028
TOTAL AGRICULTURE		389,747
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
<u>Passed through State Office for</u>		
<u>Communities and Development:</u>		
Community Development Block Grants/Entitlement Grants	14.218	2,052,208
Home Investment Partnership Program	14.239	32,399
TOTAL HOUSING AND URBAN DEVELOPMENT		2,084,607
U.S. DEPARTMENT OF THE INTERIOR		
<u>Passed through State Department-Mass</u>		
<u>Historical Commission</u>		
Historic Preservation Fund Grants	15.904	3,000
U.S. DEPARTMENT OF JUSTICE:		
<u>Passed through State Department of Justice:</u>		
Byrne Formula Grant Program	16.579	48,583
Violence Against Women Formula Grants	16.588	17,401
Local Law Enforcement Block Grant	16.592	29,952
TOTAL JUSTICE		95,936
U.S. DEPARTMENT OF EDUCATION:		
<u>Passed through State Department</u>		
<u>of Education:</u>		
Title I Grants to Local Educational Agencies	84.010	541,848
Special Education Grants to States	84.027	1,414,316
Vocational Education Basic Grants to States	84.048	38,851
Special Education Preschool Grants	84.173	32,775
Safe and Drug-Free Schools and Communities State Grants	84.186	30,193
Fund for Improvement of Education	84.215	117,409
TRIO McNair Post-Baccalaureate Achievement	84.217	191,814
Twenty-First Century Community Learning Centers	84.287	114,270
State Grants for Innovative Programs	84.298	15,952
Educational Technology State Grants	84.318	9,640
English Language Acquisition Grants	84.365	98,448
Improving State Quality State Grants	84.367	181,499
Project Focus	84.Ukn	10,250
TOTAL EDUCATION		2,797,265

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
<u>Passed through Massachusetts Department</u>		
<u>of Public Health:</u>		
Public Health and Social Services Emergency Fund	93.003	18,522
Medical Reserve Corp Small Grant Program	93.008	20,146
Drug-Free Communities Support Grant Program	93.276	<u>91,872</u>
TOTAL HEALTH AND HUMAN SERVICES		<u>130,540</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY		
<u>Passed through Massachusetts Emergency Management Agency:</u>		
State Domestic Preparedness Equipment Support Program	97.004	39,733
Urban Area Security Initiative	97.008	5,395
Disaster Grants - Public Assistance	97.036	86,869
Assistance to Firefighters Grant	97.044	<u>35,650</u>
TOTAL EMERGENCY MANAGEMENT		<u>167,647</u>
TOTAL		<u>\$ 5,668,742</u>

See notes to schedule of expenditures of federal awards.

Note 1 - Definition of Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Town of Brookline, Massachusetts. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule.

Note 2 - Significant Accounting Policies

The accounting and reporting policies of the Town of Brookline, Massachusetts, are set forth below:

- (a) Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting. Accordingly, grant revenues are recognized when received and expenditures when paid.
- (b) School Breakfast and Lunch Program - Program expenditures represent federal reimbursement for meals provided during the year.

Note 3 - Program Clusters

In accordance with Subpart A §.105 of OMB Circular No. A-133, Audits of States, Local Governments and Non Profit Organizations, certain programs have been clustered in determining major programs. The following represents the clustered programs:

<u>Name of Cluster/Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Education Cluster	
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the Town of Brookline, Massachusetts.
2. No reportable conditions relating to the audit of the basic financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the basic financial statements of the Town of Brookline, Massachusetts, were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs is reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Town of Brookline, Massachusetts, expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Town of Brookline, Massachusetts.
7. The programs tested as major programs include:

<u>Program Title</u>	<u>CFDA Number</u>
School Breakfast Program	10.553
National School Lunch Program	10.555
Community Development Block Grants/Entitlement Grants	14.218

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Town of Brookline, Massachusetts, was determined to be a low-risk auditee.

B. Findings-Financial Statements Audit

None

C. Findings and Questioned Costs-Major Federal Award Program Audit

None

D. Prior Year Audit Findings and Questioned Costs

None

TOWN OF BROOKLINE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2006



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To the Honorable Board of Selectmen
Town of Brookline, Massachusetts

We are presenting, for your consideration, our comments and recommendations regarding the Town of Brookline, Massachusetts' internal control structure and other matters. This management letter is critical in nature and does not identify the strengths of the financial systems.

As part of our audit of the basic financial statements of the Town of Brookline, Massachusetts for the fiscal year ended June 30, 2006, we considered the Town's internal accounting structure for the purpose of rendering an opinion on the Town's basic financial statements. Our consideration of the internal control structure did not entail a detailed study and evaluation of any of its elements and was not made for the purpose of making detailed recommendations or evaluating the adequacy of the Town's internal control structure to prevent or detect all errors and irregularities.

Our consideration of the Town's internal control structure, made for the limited purpose described above, disclosed no condition that we believe to be a material weakness. However, certain matters came to our attention that we want to report to you. These matters discussed herein were considered by us during our audit and do not modify the opinion expressed in our auditors' report, dated October 19, 2006, on such basic financial statements.

This report is intended solely for the information and use of management of the Town of Brookline and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesies and cooperation extended to our representatives during the course of their work. We would be pleased to discuss these comments and recommendations in greater detail or otherwise assist in their implementation.

October 19, 2006

TOWN OF BROOKLINE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2006

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Comments and Recommendations

SCHOOL LUNCH FUND

Comment

At the end of fiscal year 2006 the school lunch fund has a deficit balance of approximately \$432,000 which did not change significantly from the \$433,000 deficit at the end of fiscal year 2005. The School had indicated in the FY2004 management letter response that the deficit is expected to be reduced by restructuring the program and increasing revenues.

This deficit has existed for several years and does not appear as if a permanent solution to fund this deficit has been implemented. This represents a situation in which the Town's free cash is adversely affected by the amount of the deficit along with understating the special revenue fund balances and overstating the general fund's fund balance for financial statement reporting purposes.

Recommendation

We recommend that management fund this permanent deficit. School management must develop a business plan where each fiscal year's expenditures are funded by current revenues and if at the close of each fiscal year a deficit exists then the general fund school appropriation subsidize the deficit on an ongoing basis.

Management Response

The School Department's business plan includes a commitment to continue to fund any current year operating deficit incurred by the School Lunch program from the general fund school appropriation, as was done at the close of FY'05 and FY'06. The additional goal to reduce the prior year deficits, which were incurred in the late 1990's, from current year revenues has not been met in these two (2) years. The department has chosen to commit resources into improving the nutritional quality of the meals served. This goal has been met, but has come at a cost. The plan, going forward, is to increase revenue through increased participation to pay down this accumulated deficit.

CHAPTER 90 HIGHWAY FUND

Comment

Each fiscal year the Town transfers the approved allotment of Chapter 90 funds to the General Fund from the Chapter 90 Special Revenue Fund. This transfer creates a reserved surplus in the General Fund and a deficit in the Chapter 90 Fund. The expenditures are recorded in the General Fund and the restricted fund balance is reduced. When the reimbursement revenues are received they are recorded in the Chapter 90 Fund which reduces the deficit. Under this method of accounting the fund balance in the Chapter 90 fund should be zero or be equal to the outstanding allotment receivable.

The Chapter 90 Fund is reporting a cash deficit of approximately \$1,026,000 that should equal the remaining allotment receivable. However the allotment receivable in the Chapter 90 fund and the remaining allotment payable to the Town as reported by the state do not agree. Therefore the fund has not been fully reconciled at year end.

Based on the accounting methodology used by the Town this would indicate an error in posting revenue, transfers, expenses or the allotment receivable has occurred.

These unreconciled balances could cause a situation in where both the General Fund and Chapter 90 fund are reporting inaccurate fund balances.

Recommendation

We recommend that the Comptroller's Office and the Engineer's Office reconcile the Chapter 90 Funds records to the state report and continue the process on at least a quarterly basis.

Management Response

At the end of each fiscal quarter representatives of the Comptroller's Office and DPW's Engineering Department, will reconcile the Chapter 90 funds per the general ledger to the Massachusetts Highway Department approved for payment and outstanding balances. In addition, the Engineering Department will endeavor to submit requests for reimbursement to the Massachusetts Highway Department as soon as any payments are made to Town vendors for chapter 90 funds.

CAPITAL ASSETS REPORTING

Comment

Since fiscal year 2002, the Town has maintained capital assets in accordance with the requirements of GASB Statement #34. The Town utilizes the MUNIS fixed asset module to record all capital expenditures. The Town has developed procedures to maintain asset additions and deletions, however, the system needs to be refined.

Currently, assets are added by accounting personnel when invoices are paid. Every time an invoice is entered for a capital expenditure, a new asset is added. Therefore, if multiple invoices are used to pay for one project or asset, multiple assets will be created in the system. As a result, we noted that the town reported approximately 3,800 assets that do not meet the Town's capitalization threshold of \$15,000. The vast majority of the time-consuming efforts relate to the machinery & equipment class of capital assets, which, at June 30, 2006, represented about 5% of the \$178 million of net book value for the capital assets. A more streamlined process related to this class of assets can significantly reduce the time required to spend on capital assets each year.

Due to the number of assets owned by the Town this method is cumbersome, prone to error and difficult to maintain.

In fiscal 2006, the Comptroller's office discovered a software error that resulted in a significant number of entries that did not post to the ledgers. As a result of these system generated errors, significant time had to be expended while working with MUNIS to correct the posting.

The corrections took several weeks and the resulting audit trail was difficult to follow. This led to a delay of completing the audit of approximately one month.

Recommendation

We recommend the Town evaluate the entire process of maintaining its capital asset records. The cost of the resources expended exceeds the benefits derived. A more economical process should be developed that limits the number of assets. The process should be geared to reporting the capital assets in compliance with the financial statements and footnote disclosure. In addition, the Town should document the new policies and procedures to ensure that the errors which occurred in fiscal 2006 do not occur in fiscal 2007.

Management Response

It has become apparent that the MUNIS Fixed Asset program still has several programming flaws that render it unusable for fixed asset monitoring with a reasonable return on time investment. As a result, beginning with fiscal 2007, we will be returning to an access database fixed asset system. We have already downloaded history prior to fiscal 2007 to the access database. At the end of each fiscal year, invoices related to specific building or long term projects will be aggregated into one asset and added to the new database, rather than loading individual invoices. Also, as a result of change in policy, we will no longer be adding individual pc leases to the fixed asset system.

Informational Comments

STATEMENT NUMBER 45 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Comment

In July of 2004, the Governmental Accounting Standards Board (the GASB) issued Statement No. 45 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. This Statement improves the relevance and usefulness of financial reporting by (a) requiring a systematic, accrual-basis measurement and recognition of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with a total membership of fewer than 200. The projection of benefits should include all benefits covered by the current substantive plan (the plan as understood by the employer and plan members) at the time of each valuation and should take into consideration the pattern of sharing of benefit costs between the employer and plan members to that point, as well as certain legal or contractual caps on benefits to be provided. The parameters require that the selection of actuarial assumptions, including the healthcare cost trend rate for postemployment healthcare plans, be guided by applicable actuarial standards.

Net OPEB obligations, if any, including amounts associated with under- or over contributions from governmental funds, should be displayed as liabilities (or assets) in government-wide financial statements. Similarly, net OPEB obligations associated with proprietary or fiduciary funds from which contributions are made should be displayed as liabilities (or assets) in the financial statements of those funds.

An employer's net OPEB obligation is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan, including the OPEB liability or asset at transition, if any. (Because retroactive application of the measurement requirements of this Statement is not required, for most employers the OPEB liability at the beginning of the transition year will be zero.) An employer with a net OPEB obligation is required to measure annual OPEB cost equal to (a) the annual required contribution (ARC), (b) one year's interest on the net OPEB obligation, and (c) an adjustment to the ARC to offset the effect of actuarial amortization of past under- or over contributions.

This Statement generally provides for prospective implementation—that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The Town is required to implement this statement in fiscal 2008 although earlier implementation is encouraged.

During fiscal year 2006 the Town obtained an actuarial valuation to meet the requirements of this GASB statement.

Recommendation

We recommend that management continue to take a proactive approach to the planning and implementation of GASB Statement No.45.

FRAUD RISK ASSESSMENT

Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Town perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Town's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Town that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town, its environment, and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the Town are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

Recommendation

We recommend that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation.